

Accounting in Politics

Devolution and democratic
accountability

Edited by
**Mahmoud Ezzamel,
Noel Hyndman, Åge Johnsen
and Irvine Lapsley**

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This book looks at the effectiveness of the 1999 restructuring of the UK through the establishment of the Scottish Parliament and the Assemblies for Northern Ireland and Wales, considering the process of devolution and its consequences on the key mechanisms of accounting and democratic accountability. Many of the chapters in this book examine whether devolution is enhancing democratic accountability, or creating a fragmentary state with conflict and tensions between the Westminster government and the devolved bodies.

The focus is on the financial mechanisms for democratic accountability both in the UK and in international comparator countries (New Zealand, Norway and the US). The book examines the turbulent pattern of relationships between central and devolved government and explores whether the present arrangements for devolution in the UK represent an end game, or whether they may be merely a stepping stone to a more fully fledged federal state. It is argued that the main thrust of many of the financial reforms in the UK has confounded, obfuscated and complicated the desire for democratic accountability.

The four academics involved in the editing of this volume were involved in a research project in a major ESRC programme on devolution and constitutional change. The resulting work will be of interest to students and researchers who are engaged in examining UK devolution and, more particularly, those with a concern related to resource accounting and budgeting issues. It will also make fascinating reading for civil servants and politicians involved in the devolution process.

Mahmoud Ezzamel is Professorial Fellow of Cardiff Business School. **Noel Hyndman** is Professor of Management Accounting and Director of Research in Accounting at Queen's University Management School. **Åge Johnsen** is Professor of Public Policy at Oslo University College. **Irvine Lapsley** is Professor of Accounting and Director of The Institute of Public Sector Accounting Research at the University of Edinburgh Management School.

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Much of the empirical work, particularly that relating to Northern Ireland, Scotland, Wales and Norway, that is used as the basis for this book, has its origins in a meeting held in Edinburgh in 2000 where the idea for a CIMA-sponsored project on management accounting in central government was developed. In 2001 a research proposal was funded by a grant from the Research Foundation of the Chartered Institute of Management Accountants (CIMA). In 2002 the project also received a grant from the 'Devolution, parliamentarism and democratic accountability: a comparative study' project (grant award number L219252132) in the Economic and Social Research Council (ESRC) research programme on devolution and constitutional change. Other contributions (principally those concerning New Zealand and the United States) were invited to provide comparisons and perspectives to enrich an understanding of how accounting information, and changes in such information as part of a wider scheme of reforms, may impact on democratic accountability.

Our aim in writing this book is to contribute to the debate on the role of accounting, finance and management as facets of the modernising agenda in evaluating democratic accountability that is taking place in accounting, public management, public policy, sociology and economics within the 'governance and the constitution' theme. We also hope that this book is useful to practitioners (public sector accountants, managers, policy analysts and auditors). Research on current political and administrative practices is potentially useful for politicians, policy makers, journalists and citizens, at large. In particular, the book may be relevant for informing the debates on devolution, decentralisation, regionalisation and federalism, for instance with regard to establishing regional assemblies in England, and in assessing the diverse roles of accounting on democratic accountability in public sector reforms.

We have taken a number of steps to facilitate interaction with, and dissemination of findings to, different user groups of this research (such as academics, politicians and policy makers). First, we have presented the main findings both in academic and professional conferences, including seminars within the UK (in Northern Ireland, Scotland and Wales) and further afield (in Canada, the Republic of Ireland, Italy, New Zealand and Norway), where

plans and preliminary results have been presented and discussed with politicians and policy makers. Second, we have also participated in CIMA and ESRC workshops and conferences. Third, we have circulated and published our results, with more publications in prospect, to enhance dissemination further.

There are many institutions and individuals we want to acknowledge. Thanks to ESRC and CIMA for financial support. Thanks to Rebecca Edser, Sarah Hunt, Gary Martin and Elisa Wright for assistance in data collection in the project. Thanks also to Yvonne Crichton for excellent secretarial support throughout this project, and in finalising the manuscript for this book. Thanks also to the many colleagues and reviewers who at different stages in the project, and at different seminars and conferences, have provided numerous constructive comments. Last, thanks to all the interviewees – members of parliaments and national assemblies, executive officers, audit officers and parliamentary clerks and advisors – who generously gave their time and insights to help us with the data collection phase of the project.

Mahmoud Ezzamel (Cardiff), Noel Hyndman (Belfast), Åge Johnsen (Oslo)
and Irvine Lapsley (Edinburgh), October 2007

1 Introduction

*Mahmoud Ezzamel, Noel Hyndman,
Åge Johnsen and Irvine Lapsley*

Purpose

This book studies the role of accounting in informing and shaping the democratic accountability of actions for key agents in politics. It focuses on the new devolved executives and national assemblies and parliament in the UK (Northern Ireland, Scotland and Wales), but also makes comparisons with more established political settings (in Westminster, New Zealand, Norway and the United States). We explore how accounting is affected by a modernising public management culture and the New Public Management (NPM) movement and how accounting relates to non-accounting forms of accountability.

The book investigates the emergence and development of accounting practices and the meanings attributed to these developments for democratic accountability. It studies the annual budgeting, performance management and performance audit reporting processes, and the connections between budgeting and reporting. Specifically, it is interested in examining the linkages between mission statements, objectives and targets (including budgets) in the planning process and the use of performance measures and indicators in the reporting process. The macro whole-of-government level is distinguished from the micro agency level. The book also focuses on the devolved governments and parliaments as affected by whole of government budgeting.

Background

Democratic accountability and welfare have been substantially improved in most western countries during the twentieth century. The new devolved institutions in the UK have had the opportunity to profit from the latest developments and best practices among the western democracies. Simultaneously, and paradoxically, with increasing democratic representation, more transparency and extensive public management reforms in the 1980s and 1990s, there is evidence of a decline in citizens' interest in democratic accountability. This decline in interest is evidenced by decreasing party membership, low voter turn out and political communication practices

resembling the old-fashioned Westminster/Whitehall model with spin doctors and lobbying, resulting in politics which is not so open (Schlesinger *et al.*, 2001). However, democratic governance is executed through a diverse set of instruments and procedures. Such arrangements may also vary over time and between different national, institutional and public management cultures (Hood, 1998).

While political scientists and economists often study given institutions and their relationships and effects, this book focuses on what is going on *inside* political institutions, and primarily the new devolved institutions within the UK (Northern Ireland, Scotland and Wales). This entire area is novel, and presents an opportunity to study the role of accounting in a political setting. Its concentration on the use of accounting in the implementation of devolution programmes in the UK, which represents one of the most significant changes in British public policy in decades, is unique. This book will shed more light on several dimensions of democratic accountability in the Westminster model of democracy compared to the (non-Westminster) Nordic consensus model (Lijphart, 1999), such as representation of relevant information and openness and accessibility for the participating actors. Democratic accountability issues are examined in a comparative research design that acknowledges the impact of diverse historical and institutional contexts, including international experiences as represented by New Zealand, Norway and the USA.

The research reported in this book is informed by studies of government and public sector reforms in general and in particular the NPM reforms during the 1980s and 1990s (Boston *et al.*, 1996; Lynn, 2006; Pollitt and Bouckaert, 2000). NPM reforms typically have evolved around six dimensions: privatisation, marketisation, decentralisation, output orientation, quality systems, and intensity of implementation. Several of these dimensions have in practice been embraced by the current (and former) UK government(s) in their modernising strategies. In particular the book addresses three of these issues: decentralisation, output orientation and intensity of implementation.

A conventional view of accounting, and one that is often articulated in NPM documents that refer to accounting, is that it is a neutral tool that can aid decision makers (be they politicians or managers) in making rational decisions in the pursuit of clearly defined goals and objectives. A general view of accounting procedures is that they are logical and objective, although those who understand the intricacies of accounting and the choices that have to be made may be more sceptical as to the extent to which accounting information possesses such characteristics. It is assumed that such techniques can make a major contribution in planning and control within a public sector setting (the application of such procedures being referred to as management accounting) and aid the discharge of accountability by public sector bodies (these procedures often being referred to as external or financial accounting). In recent years, with particular reference to accounting in financial terms

(be it related to management accounting or financial accounting) many governments, in tandem with NPM reforms, have moved from cash to accrual accounting principles (Jones and Pendlebury, 2000). With such moves, it is often argued that accrual accounting information is more accurate and useful, particularly as it more appropriately reflects the consumption of capital assets. In the UK, both within Westminster and within the new devolved institutions, accrual accounting principles were introduced under the banner of Resource Accounting and Budgeting (RAB) (Likierman, 2001). This significant change was in parallel with the implementation of the UK devolution programme, although it was unrelated to this particular programme.

An important element of the evaluation of accounting practices is the context in which they are used. The UK political system of democratic accountability may be characterised as a process of a long history of evolution (Marshall, 1991). In this regard one central dimension in current public sector management reforms is decentralisation. Decentralisation in public sector management reforms has especially been developed during the 1980s and 1990s in the Nordic countries and in the Netherlands. Moreover, the recent and expanding literature on devolution (Bogdanor, 1999) and on non-US parliaments and legislatures (Lijphart, 1999; Matthews and Valen, 1999) is also crucial for the understanding of democratic accountability in modern government. Decentralisation and devolution may theoretically also be contrasted to the more radical form of constitutional change by revolution (Skocpol, 1979) or other more relevant forms of exit or 'disloyalty' (Hirschman, 1970), as, for instance, independence for Scotland.

While the UK has had, in a European context, a long history of relatively centralised control with little power decentralised to local government, in recent times the UK government has extended devolution of power from Westminster to three new national institutions. In Northern Ireland, Scotland and Wales, openness, transparency and accountability have been central themes in the devolution programme. However, a common trait with decentralisation reforms is a parallel development of centralisation of controls. The increasing emphasis on output orientation by way of performance measurement and performance audits may be seen as such instruments for retaining (or gaining) central control, at least in the UK. These wider issues reaffirm the importance of an international comparative study. Furthermore, the use of planning systems integrating financial and management accounting and historic and forward looking figures, for instance in the form of RAB, seemingly indicate intentions that tight coupling between plans and actions should be pursued and give evidence towards a high intensity of public policy implementation. These issues are examined in this book. Thus, accounting can be seen as a vital ingredient in modern public sector reforms that warrants close scrutiny.

The notion that accounting is important in government and in reform is of course neither new nor unique. For example, Olsen's (1970) classic study of

budgeting processes in Norwegian local government observed that the budgeting process may not have an instrumental role in resource allocation, but may serve as a ritual. In this process, Olsen observed that the political scrutineers of budget processes may be experts, advocates, or onlookers, with the major implication that it is dangerous to make assumptions about the discharge of democratic accountability. However, subsequent research (Hansen, 1985) showed that the majority of elected representatives in Norwegian local government were well informed and active in the budgeting process. This later finding points to a dynamic and learning process which may occur in the scrutiny of budgeting in the public sector. At a more general level, Wildavsky (1986) has observed that cultural factors may shape scrutiny processes. For example, the social democratic regimes of New Zealand, Norway and, to some extent, Scotland, might be expected to have the objectives of both managing revenue and expenditure to keep the budget in equilibrium. This would entail elected representatives actively scrutinising budgets, as well as monitoring performance. A further complexity here is the manner in which agencies and ministries have the capacity to interrogate budgeting processes (Lindblom, 1959). These are important sub-texts and dimensions to a process to which the parliament may approve the budget while only making minor changes (Brofoss, 1985) which may give the appearance of a ritual process. Therefore, the use of accounting information may be subject to much more complex usage than being mere political 'ammunition' for the frontbenchers from the opposition to the party or parties of the ruling government.

Specifically in the context of the UK, accounting reform is playing a significant role in the restructuring of central government. However, there is a perceived need to inject more uniformity into the system, for instance by clearer definition of the reporting entities and continued publication of performance information in annual reports (Heald and Geaughan, 1997). Important elements of the new devolved arrangements are the commitments made to improve transparency and to develop new mechanisms for deliberating upon the business of government. There are a number of factors that suggest that budgetary information will assume a new significance. In particular, the promotion of RAB, which extends beyond the cash-based accounting used previously, can be expected to have a major impact. This new system of accounting recognises assets and liabilities (full accrual accounting) and entails the use of performance indicators and the incorporation of department objectives in budgets. In addition, it requires that management accounts better align to financial accounting statements. All of these influences make this a particularly opportune time, first, to evaluate the effectiveness of these initiatives for the devolution programme (and more widely in public sector management and accounting systems generally) and, second, to consider the potential for further development and refinements for democratic accountability.

Democratic accountability is affected by accounting, which, specifically in the UK, could be viewed as partly fulfilling the objectives of the devolution

programme and, more generally in the UK and elsewhere, is intended to serve the need for good decision making and improved accountability. There are many factors with potential, intended or unintended consequences that may well affect accounting and hence democratic accountability. For example, if there is a general discontent with democratic accountability in a society, this issue may induce reforms. Many of the recent public sector accounting and NPM reforms (including the introduction of RAB in the UK) are, as noted above, intended (designed) to affect democratic accountability but do not have any formal connections to the devolution programme. Most notably, the emphasis on targets and outputs, which is an aspect of RAB and other more specifically NPM reforms, may affect democratic accountability. In addition, general public management cultures, and other general social, economic, technological and political developments may impact on democratic accountability. Thus, in order to explore how accounting is affected by devolution and the relationship between accounting and democratic accountability, it is necessary to consider alternative influences on accounting and democratic accountability. This book facilitates the study of the many potential influences on democratic accountability by an investigation of *international* as well as national and local trends in devolution, NPM reforms and accounting.

Many key ideas relating to accounting, devolution and accountability are explored. Two over-arching and pervasive themes are the link between *devolution and democratic accountability*, and the relationship between *accounting information and democratic accountability*. With respect to the political devolution and democratic accountability theme this book explores the research questions of whether devolution drives changes in accountability, or whether changes in accountability are driven by the NPM movement regardless of devolution. For example: the traditional bureaucracy in governments and executives may have a role in relation to transparency, accountability and the ‘third way’; the executives may mirror the kinds of changes we expect for the devolved parliaments; and there may be lessons to be learned from fully autonomous parliaments in other countries. In relation to the accounting and democratic accountability theme this book explores the research question whether and to what extent the use of accounting information improves planning and control within the public sector and accountability by the public sector. For example, accounting may play important roles for democratic accountability, but there is little knowledge on issues such as whether accounting information is understood by politicians, who uses accounting information, and when, why and in what context politicians use such information. Furthermore, this book explores to what extent, and how, accounting is used to underpin democratic accountability, or to what extent democratic accountability is pursued through more traditional political means. Moreover, it also investigates the issue of whether the detailed and extensive information provided by accounting procedures undermines and destabilises, rather than stabilises and enhances, democratic accountability.

Outline of the book

Chapter 2 examines the tensions around the implications of the devolution settlement for Westminster. The processes of devolution are considered in chapter 3, and accountability in the UK devolved parliaments is discussed in chapter 4. We then examine a series of study settings, in detail, both within the devolved settings and in international comparisons. In chapters 5, 6 and 7 respectively, we examine the experiences of devolution and democratic accountability in Northern Ireland, Scotland and Wales. We then examine international comparators. New Zealand is widely recognised as being at the forefront of international public management developments, and its experiences are discussed in chapter 8. In the Scandinavian countries, there is a strong democratic tradition of accountability which is quite distinct from the conventional view of the NPM paradigm of enhanced managerial accountability. The experiences of Norway in the exercise of parliamentary accountability are discussed in chapter 9. We then turn to the US experiences of fiscal and democratic accountability to consider the US model of budgetary accountability in chapter 10. Finally, in chapter 11, we conclude on the devolution outcome and likely prospects, given the documented experiences, both within the UK and internationally.

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2 The Westminster model of government

Challenges and tensions

Andrew Gamble and Irvine Lapsley

Introduction

The discussion of the Westminster model of government in this chapter includes its shaping by early and more recent history, followed by an exploration of its distinctive nature. Finally, the challenges and tensions around the Westminster model, including criticisms of Whitehall, the civil service bureaucracy, but with particular emphasis on the present arrangements for devolved assemblies and parliaments in the UK, are examined. While the Westminster model persists, fragmentation, blurring of responsibilities and increasingly complex governance mechanisms present significant challenges to its future role.

The emergence of the Westminster model

At the heart of the Westminster model of government is the elected Parliament by which democratic accountability is exercised. As Gamble (2006a) has elaborated, this arrangement has its antecedents in the struggles for influence and power between the Monarchy and the Church, with the Monarch emerging in the ascendancy. Subsequently, the struggle between Monarchy and Parliament in the seventeenth century in England was resolved in favour of Parliament, although with the Crown retaining important prerogative powers which remained outside parliamentary control. Over time these prerogative powers came to be exercised by the executive, formed from the group which could command a majority in Parliament.

This concentration of power in the hands of the executive was modified, but not removed, by the development of mass democracy within the nineteenth and twentieth centuries. Most importantly, the continuity of the Westminster model has been ensured by distinctive aspects of the history of the United Kingdom. During the twentieth century, the United Kingdom was involved in major conflicts, including two world wars, but it was not defeated and occupied by a conquering force, nor did it suffer internal revolution, which were the two main catalysts for new constitutional settlements elsewhere in Europe.

The endurance of the Westminster model is not merely a reflection of the historical continuity of the British state. Its durability is also a function of the legitimacy accorded to the concept of parliamentary sovereignty or more precisely Crown-in-Parliament, the Crown acting through Parliament (Dicey, 1924) within the UK. The 'Crown-in-Parliament' model of government which confers primacy on the executive has always been supreme in the Westminster model. It has no written constitution or single codified statement of rights and responsibilities, or checks and balances, as other constitutions do. The Acts of Parliament passed by Parliament form the basis of governance in the Westminster model, an uncoded constitution, which also comprises treaties, orders in council and common law judgements. In this model, there is no entrenchment. No Parliament can bind its successors, so permanency is only achieved if each newly elected government accepts, and does not remove, legislation from the statute books, does not cancel treaties, nor break with conventions. In this way, the British constitution has been formed from the accumulation of legal precedents, statute law, and the conventions of Parliament. In practice all governments are severely constrained by what they inherit, but there is no constitutional barrier to Parliament deciding to overturn previous legislation, even the 1998 devolution bills, there are only political barriers.

The functioning of the Westminster model has important implications for the conduct of legal activities and for the administrative machinery in support of the elected government. The legal profession and the courts of law seek to interpret Acts of Parliament without the benefit of a codified constitution, and with Parliament (in the shape of the Appellate Committee of the House of Lords) as the ultimate arbiter on issues of law. A second important part of the Westminster model is the functioning of the administrative machinery or civil service. The departments of central government and related agencies are subject to Parliamentary accountability and scrutiny, whether by the Comptroller and Auditor General, who himself reports to Parliament, or by scrutiny by all party select committees, or by Parliament in open debate. These are important elements of democratic accountability, however, the most important mechanism by which democratic accountability is exercised is the manner in which the Minister responsible for a given function is held accountable to Parliament. In this regard, the civil service, who provide the administrative machinery for the execution of government policy, are required in the Westminster model to be neutral and impartial, both in the policy advice they offer to government and in the implementation of the policies of the government of the day.

These distinctive facets of the Westminster model – the clear demarcation between political masters and civil service, the significance of Parliament in creating by enactment and convention an uncoded constitution, the legitimacy afforded to Parliament, by both historical continuity and by mass democracy – have all combined to make the Westminster model a durable and successful means of government.

The Westminster model: challenges and tensions

However, the Westminster model has increasingly been seen as losing effectiveness and legitimacy. The Westminster model of government reached its apex in the early to mid twentieth century, a period in which strong nation-states prevailed. Subsequently, it has increasingly appeared to be not fit for purpose, and the frailties of its mechanisms to cope with new problems and challenges have been much criticised. These challenges include the development of the global economy which has undermined the concept of the strong nation-state; the emergence of the New Public Management paradigm, which has fundamentally altered the relationship between ministers and civil servants; the UK's membership of the European Union which has undermined the concept of parliamentary sovereignty. The most recent challenge has been the devolution of responsibilities to elected assemblies in Northern Ireland and Wales and the Parliament in Scotland, which challenges the supremacy of the Westminster executive and the appropriateness of the Westminster model for the governance of a more decentralised polity. These challenges and tensions are now explored.

The influence of the global economy

The global economy can be seen as undermining the idea of the strong nation-state, as depicted above in the Westminster model, in a number of ways. While the independence of nation-states has always been somewhat illusory in the era of modern capitalism, and world trade has always been a powerful mechanism of change, the novel forms of globalisation in the late twentieth and the early twenty-first centuries has made a more profound challenge to the autonomy of nation-states, associated with the growth of financial, commodity and migrant flows. The widening access to markets, with the liberalisation of the former Eastern Bloc and the emergence of China and India as major producers and markets, has introduced a new scale to the global economy. The manner in which global brands, such as Coca Cola and McDonald's, have become commonplace across the world, is one manifestation, as is the emergence of major corporations such as Ford, Toyota, IBM, Microsoft, with annual budgets which dwarf the GDPs of many smaller countries. No state can now afford to be isolationist, and although they still retain important areas of autonomy, they are powerfully constrained in what they can do.

The New Public Management paradigm

The rise of the global economy, and the need for states to adjust to it, has been accompanied by the spread of new ideas for managing public sectors, as a means of delivering greater efficiency. These have become known as the New Public Management (NPM) (Hood, 1991; 1995). In Britain the size and

shape of the public sector became a major focus of successive governments at Westminster. The New Public Management poses serious challenges to the traditional public administration model, as well as severe challenges to democratic accountability, according to Behn (1998). One particular facet of this is the focus of NPM on results, which contrasts with the traditional focus of public administration on processes. The results-orientation of NPM may result in civil servants being regarded as managers with a significant input into policy design and delivery (Behn, 1998). This focus on results also creates a tension between the preference of politicians for vague policy statements rather than quantifiable measures or targets, and the clarification of objectives sought by NPM proponents (Borins, 1995). Also, the NPM model, which regards the citizen as a customer, represents a fundamental challenge to the idea of representative democracy. These aspects of NPM are accentuated by the structuring and re-structuring of the public sector and by the forging of strategic alliances and partnerships working across public, private and not-for-profit sectors as well as by the split between purchasers and providers, leading to the proliferation of agencies charged with delivering services, which are no longer directly accountable to ministers. This fuzziness undermines the traditional public accountability model which rests on specific individuals with responsibility for given spheres of government activity and their being held accountable for them.

The influence of the European Union

The latter part of the twentieth century has also seen a reduction of the influence of the Westminster government as a result of the UK's admission to the European Union by signing the European treaties. The price of access to wider economic markets has been an acceptance of European law prescribing common standards and rules in certain areas, implemented through the European Commission and enforced if necessary through the European and national courts, which constrains the policy actions of member states. Indeed, Wallace (1996) has observed that no self-contained nation-state has the ability (whether measured by resources, capacities or constraints) to direct all areas of public policy. Membership of the EU therefore represents a substantial qualification or pooling of sovereignty. Striking examples of this are farm subsidies and agricultural policy, regional aid, competition policy, and the rules governing the single market. Most recently the EU has been pre-occupied by the debate over enlargement and monetary union and a new constitutional treaty to define the powers of the EU institutions and the nation-states. If the concept of the founders of the EU of a unified entity with an economic and monetary union were ever realised (and following recent difficulties that is looking less likely), it would severely circumscribe the role of the nation-state, and make impossible the kind of accountability demanded by the Westminster model. The complexity of the EU makes relationships of accountability very difficult. Gamble (2006a) has described the

EU as having a more open policy process, with many more points of access, and more inclined to make greater use of regulation and law. But it lacks proper representative institutions and therefore democratic legitimacy. The EU combines well organised professional lobbying for special interest groups with a relatively weak European Parliament, an active Council of Ministers and an entrepreneurial European Commission. This set of circumstances blurs the influence any one active state can have on the agenda setting of the European Union, and necessarily limits the role of Westminster as one other nation-state in this complex process. The result is that many policies emerge from the EU for whom no-one in the Westminster Parliament appears directly accountable.

Westminster and Whitehall

A further challenge to the Westminster model is the growing complexity of government, and the inadequacy of the instruments at the disposal of ministers. This is exacerbated by frequent changes of Ministers in some departments – John Reid had nine jobs in ten years. In an account of his experiences as a Minister, Richard Crossman (1975) observed that this tendency could weaken the contribution of Ministers to Cabinet government because of its destabilising effects. In particular, the asymmetry of information between the Minister and his/her senior civil servants on policies, past and present, could reduce the Minister's role. Terry (1992) observed that there may be a dependency relationship between Ministers and senior civil servants, as the civil servants 'surround and insulate' (Terry, 1992: 258) Ministers from the outside world, as the civil servants make drafts of speeches to be made, communiqués to be delivered and policy lines to pursue. The politicisation of the civil service and the greater use of special advisers have led to questioning of how much neutrality from career civil servants can be expected or is any longer feasible.

However, there is a body of evidence which suggests that the criticisms of civil servants by their political masters for a lack of responsiveness may in fact be because civil servants tend to the middle ground in politics. Wilson and Barker (2003) comment on a survey of senior civil servants at Whitehall in the mid-1990s on the merits or demerits of the policies of Thatcherism. In general, those interviewed clung to the middle ground on these issues. British civil servants continued to display the 'compulsive centrism' that Aberbach, Putnam and Rockman in their 1981 book *Bureaucrats and Politicians in Western Democracies* associated with all the European bureaucracies of the early 1970s. Most of the civil servants were moderate or centrists, but the higher civil service was not politically homogeneous even though the balance of opinion was somewhat, but not much, to the left of centre. These findings therefore suggest considerable continuity in attitudes of senior civil servants to politics, to the frustration at times of their political masters.

Most importantly, these pressures on Westminster government are accentuated by observations that its operations are a form of 'club' government (Marquand, 1988; Moran, 2003) in which the effectiveness of the Cabinet at Westminster hinges crucially on the existence of the informal networks and personal connections. This club government therefore results in a lack of transparency and of democratic accountability, and indeed, the very existence of club government inhibits enhanced democracy and transparency. Club government has been challenged very effectively by the New Public Management, but the new organisational structures and processes which have been introduced have not been very successful in creating new mechanisms of accountability. This has contributed to the steep fall in trust in politicians and the political process.

The challenge of devolution

These wider changes have challenged the continued relevance of the Westminster model. But tensions have also arisen as a direct consequence of an internal change – the devolution of responsibilities to the Scottish Parliament and the Assemblies in Wales and Northern Ireland.

There are two major features of the current devolution settlement which look unstable and threaten the viability of maintaining the Westminster model; first, the allocation of resources from the national government to the devolved administrations, and second the political realities of the function of devolved administrations in Cardiff or, most pertinently, in Edinburgh and Belfast.

Resource allocation to the devolved administrations is shaped by the fact that the Treasury exerts a strong central control on fiscal policy. The only exception to this is the delegated power to the Scottish Executive to vary the rate of income tax by up to three pence in the pound (HM Treasury, 2000). This delegated power has yet to be exercised by the Scottish Executive. The devolved administrations are assigned funds, some of which are for specific services in line with UK or EU policy, and an unconditional block of funds over which they have discretion. The expenditure of the devolved administration is augmented by local tax and charges by local authorities and other public bodies.

The key mechanism for achieving this resource allocation to the devolved administrations is the Barnett formula, which was established in 1978 at a time when initial ideas of devolution of Westminster's powers were being mooted. The Barnett formula was considered an interim mechanism at the time of its introduction, but it persists today. This formula has been criticised as providing obscurity rather than transparency in resource allocation (Midwinter *et al.*, 1991). The size of the monies allocated to the devolved administrations is a per capita increment to Northern Ireland, Scotland and Wales from a population-based percentage of England's increase in public expenditure. It has been argued by Heald and McLeod (2003) that a particular benefit of this regime is that the devolved administrations have

considerable discretion over the manner in which they allocate their budget, free from the centralising tendencies of HM Treasury which has used Public Service Agreements and crosscutting reviews of expenditure to exert influence over departments at Whitehall. Nevertheless, these subtleties are lost on many commentators and are the source of more overt debates over 'who gets what and when' (Mitchell, 2003). In particular, Mitchell (2003) points to the influence of 'the spectators' on the debate over levels of funding for the devolved institutions vis-à-vis Westminster, a debate with a growing, albeit ill-informed, audience. This is a particular tension to which we will return.

While sources of funding have been a source of contentious debate, there are more fundamental issues of political accountability at work within the devolved settings.

One of these concerns the continued legitimacy of the Westminster Parliament, and in particular the rights of the Scottish, Welsh and Northern Irish MPs to continue to vote on matters which have been devolved. The West Lothian question strikes at a core assumption of the Westminster model – the idea of a single, centralised source of legitimate authority in the state, the focus of allegiance and power. Another issue is that one of the distinguishing features of the devolved assemblies in Northern Ireland and Wales and at the Scottish Parliament has been the move away from the 'first past the post' system of electing Members of Parliament at Westminster to a system of proportional representation. In the proportional representation system, there are successful candidates for specific constituencies on a 'first past the post' basis. But there are also so-called 'list' members of the assemblies and the Scottish Parliament and the numbers and political complexion of such members depends on the proportion of votes cast for their political parties at the election of the 'first past the post' members.

This makes coalition government the normal political outcome. In the Westminster model it has always been the exception. This posed particular difficulties in the context of the specific coalition at Stormont in which the nationalists were part of that government. The repeated interruptions, the closures of the Northern Ireland Assembly because of political conflict meant that until 2007 this particular assembly has not provided a medium for accommodating the religious and political differences of political parties in Northern Ireland. However, in May 2007 there has been a rapprochement between the Ulster Unionists and Sinn Féin, which has led to the restoration of the assembly and a power-sharing government. This may lead to a peaceful resolution and a functioning elected assembly. In Scotland, in the first and second Parliaments there was a coalition of Labour and LibDems. In May 2007, for the first time the Scottish Nationalist Party became the largest single party and formed a minority administration. Wales too has experienced coalition government, and, given the balance of parties, will do so again. In addition to the system of proportional representation, the assemblies and the parliament have scrutiny systems which have sought to eschew the confrontational politics of Westminster. The particular mechanism

by which this was to be achieved was the use of all-party select committees to oversee the business of the devolved administrations. This review mechanism has worked well in the Welsh Assembly and in the Scottish Parliament. In Northern Ireland it is still to be properly tested.

These are important changes in the way representative politics is conducted. The Westminster Parliament still clings to one of the essential foundations of the Westminster model – the ‘first past the post’ voting system – even while legislating for it to be replaced elsewhere. The impact of devolution on Westminster remains uncertain. Gamble (2006b) points to a number of influences which could yet prove to be defining elements. This includes the political outcome when there is a different political party in Westminster from that in Cardiff or Edinburgh, as there now is in the latter. In this, any success and consequent actions of the nationalist parties in these elected forums may yet test the viability of the Westminster model to the limit, since there is no experience in conducting politics in a polity with several different sources of legitimate authority. While Gamble (2006b) acknowledges that there are complex trade-offs between interest and identity which inhibit breakaways in established democracies, the possibility remains. In particular, the reaction of the electorate in England to the aspirations of nationalists being given a formal forum with significant voice is uncertain, and brings an additional dynamic to the fate of the Westminster model. This is accentuated by debates on level of resources. Within the mix, there are also pressures for additional powers at Holyrood from the LibDems and at the Welsh Assembly. The dynamic of a shared government of Democratic Unionists and Sinn Féin now that one has been established remains uncertain. Collectively, these influences have the potential to determine the durability of the Westminster model, even more than the wider influences of the global economy, the new managerialism and the European Union.

Conclusion

The Westminster model is well established and still endures. Its Members of Parliament are elected on a ‘first past the post’ basis, and the majority political party form the government, with its senior figures comprising a Cabinet to oversee policy development. The centralisation of power in the hands of this executive is supported by the Whitehall civil service. Members of Parliament in opposition political parties have the opportunity to scrutinise the activities of government both within the chamber of the elected house and within all party select committees. In these ways Ministers (including the Prime Minister) are held to account by Parliament, resulting in government that is both representative and responsible.

Critics of the Westminster model allege that recent changes mean that government is becoming neither representative nor responsible, and they look for a thorough overhaul of constitutional arrangements. Despite the enduring nature of the Westminster model of governance, there are severe

challenges to its continued operation in its present form. This can be seen on one level as the multiplicity of complex relationships in the twenty-first century which strain the idea of accountable, elected political figures. In part, this is a function of the global economy of the twenty-first century in which nation-states are not such key actors as they once were. There is also the influx of management ideas which have altered the structure of government departments and changed accountability arrangements. There is further attenuation of the Westminster model of governance in the shape of the influence of the European Union. However, it is suggested here that the processes of devolution may be even more important for the survival of the Westminster model, since they could yet lead to a more federal structure or even the break-up of the United Kingdom. This is not an immediate prospect. But as long as many of the anomalies and tensions in the different devolution settlements remain unaddressed the potential for further radical change in constitutional arrangements, extending to the core principles of the Westminster model itself, cannot be ruled out.

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3 The process of devolution in the UK

Simona Scarparo

Introduction

In the UK, the process of devolution has a long history. It goes back to 1886, when the Liberal leader William Gladstone proposed the Home Rule for Ireland. Devolution challenges the culture of the unitary nature of the British State and the supremacy of Parliament, as power is handed over from central government to national parliaments and assemblies: 'Devolution may be defined as consisting of three elements: the transfer to a subordinate elected body, on a geographical basis, of functions at present exercised by ministers and Parliament' (Bogdanor, 2001: 2).

Northern Ireland experienced devolution (Home Rule) in 1921 which lasted until 1972, when it was prorogued and later abolished by the British Government. Scottish historical national identity had been acknowledged since the voluntary union of the crowns in 1603. Scotland had separate local government and education systems, an established Church, local press and its own banknotes. The Scottish Office and the Scottish Secretary were instituted in 1885, dealing with matters related to health, police and judicial affairs, prisons and regional development (O'Neill, 2000).¹ Unlike Scotland, Wales was not granted any special legislation or any administrative status. However, the diversity of Welsh culture was acknowledged in the demand for official recognition of Welsh as an indigenous language.

In the late 1960s, Scottish and Welsh nationalist movements expressed a growing concern over the need to obtain recognition of distinctive identities and the opportunity to be in charge of their economic interests (Jones, 2001: 269), even though Welsh nationalism was more concerned with 'the defence and preservation of a cultural way of life than with political independence' (Bogdanor, 2001: 7). In 1968 a Royal Commission, chaired by Lord Kilbrandon was set up in order to analyse 'the functions of the central legislature and government in relation to the several countries, nations and regions of the United Kingdom' (Bogdanor, 2001: 270). The report of the Commission, issued in 1973, was regarded as a signal event (O'Neill, 2000: 72) as it proposed qualified devolved governments for Scotland and Wales through elected assemblies.

However, the subsequent devolution bill issued in 1979 (Scotland and Wales Bill) devised an asymmetric devolution, as it proposed greater home rule for Scotland than for Wales. Both countries were supposed to elect assemblies by a 'first past the post' system, but Westminster retained the power to legislate on any devolved matter. Scotland had some legislative competence and executive discretion over devolved Scottish Office functions, i.e. local government, social policy and infrastructural matters. Wales, instead, was granted a local government-style committee. Neither of the two assemblies had fiscal competence. The arrangements set up in the Scotland and Wales Bill aimed predominantly at conciliating Scottish and Welsh public opinion (Mitchell, 2002: 246). The referendum held in Scotland and Wales in 1979 showed that there was insufficient support for devolution. In Scotland a narrow majority, but not enough to beat the weighted majority required by Parliament, was in favour of devolution. In Wales, a strong majority voted against devolution. Several reasons for explaining the outcome of the 1979 referendum were identified. A key factor was the division within the Labour party, as many Labour politicians considered the problem of reconciling equality of social rights with the mechanisms of devolution. Other Labour party members were not happy about challenging the unity of the state (Mitchell, 2002: 246). During the 1980s, under the Conservative government, the emphasis was laid on the strength of a unitary government and the importance of parliamentary sovereignty, dismissing the potential importance of a diversity of institutions: 'Sub-national identity was discounted as misplaced sentimentality, an obsolescent provincialism, and devolution was staunchly resisted as another tier added to already overblown bureaucracy' (O'Neill, 2000: 73).

During the 1980s and 1990s the level of conviction and the extent of support towards constitutional change grew significantly. In Scotland, the Labour party had strengthened its support for devolution, proposing a Scottish Parliament elected through some form of proportional representation, with a wider remit than the one proposed in the 1970s. The Campaign for a Scottish Assembly set up a cross party committee, representing a coalition of interests from different groups of civil society (local authorities, churches, trade unions, academia, environmentalists and the business community), which issued a 'Claim of Right for Scotland' demanding a parliament with full powers (Mitchell, 2002: 248–249). In Wales, the debate on devolution was conducted in a similar way to Scotland, but it moved with a different pace and with a subtly different spirit. The arguments in favour of devolution did not attract the same support as in Scotland, as there was more ambivalence about political identity (O'Neill, 2000: 76).

The differences between the Scottish, Welsh and Northern Irish support towards devolution are also shown by the results of the referendums held in 1997 and 1998 as shown in Table 3.1.

Scotland and Northern Ireland manifested a stronger support towards devolution than Wales, with a much higher percentage turn out in Northern Ireland.

Table 3.1 Devolution referendums

	<i>Northern Ireland</i>	<i>Scotland</i>	<i>Wales</i>
Pro devolution	71.1%	74.3%	50.3%
Pro tax-raising power	—	63.5%	—
Turn out	81.1%	60.4%	59%
Referendum date	1998	1997	1997

Source: Data compiled from Bogdanor, 2001.

In the following sections the development of the devolution process in Scotland, Northern Ireland and Wales, and its characteristics will be analysed.

Devolution in Northern Ireland

The Home Rule experience

Between 1921 and 1972 Northern Ireland experienced a form of devolution, as the six counties of Ulster which remained within the UK had Home Rule. This form of devolution, however, cannot be compared easily with the current form for two main reasons. First, the establishment of a separate parliament was a measure taken by the British government in order to try to solve the Irish problem. Thus, the devolved parliament was not created for answering claims and needs of separation from the union. On the contrary, it was accepted, after a long and controversial process, as a measure to prevent the absorption of Northern Ireland into the Irish Free State. Second, the conflict between the Protestant unionist community, which aimed to maintain connections with the UK, and the Catholic nationalist community, which instead favoured a union with the rest of Ireland, played a major role in shaping the process towards devolution and its characteristics (Bogdanor, 2001: 55–56). Because of the pressures created by the above-mentioned conflict, there was a strong determination to make devolution work. In addition, the Unionist party had a permanent majority in the Belfast parliament, therefore the work of the devolved government was not threatened by a strong opposition (Bogdanor, 2001: 69).

The Northern Ireland Parliament in Belfast was set up in a way that replicated Westminster. It was conferred a general grant of legislative power, which was subjected to specific limitations, on matters like relations with foreign countries, defence and external trade, where responsibility was retained by Westminster. In terms of fiscal matters, the legislation envisaged that the two parts of Ireland could be self-sufficient fiscal units. It was believed that Northern Ireland could have been provided with her own revenue, which would be used to finance services. However, the percentage of transferred taxation was very small (less than 20 per cent of total taxation), and related only to minor taxes. Given this, Northern Ireland had to rely heavily on

reserved taxation in order to provide services with an equivalent level of quality to the rest of the UK.

By the end of the 1970s its financial allocation was determined according to needs and not revenue, thus the financial arrangements changed from being revenue-based to being expenditure-based. In this situation, the budget for Northern Ireland was effectively determined by Westminster and needed its approval, after being negotiated between the Northern Ireland Ministry of Finance and the Treasury. This meant that there was a tight control on the allocation of resources. Their use was subject to severe scrutiny in order to ensure that 'it was not being used by Northern Ireland to secure for herself a higher level of service than that to which she was entitled' (Bogdanor, 2001: 86). Thus, financial accountability was held towards the Treasury in London and not towards Northern Ireland citizens. The budget was decided behind closed doors without any involvement of members of the Belfast parliament. In this way Northern Ireland did not have any financial autonomy, as the taxing power and spending power were divided, the first resided in London and the latter in Belfast, with an additional negative effect of weakening the correlation between expenditure and revenue.

The Home Rule system was brought to an end in 1972 because British MPs and ministers did not consider Stormont able to deal with the outbreak and intensification of violence from 1968 onwards. Thus, from 1972 until 1999 Northern Ireland was largely under British direct rule, which was supposed to be a temporary solution. As a matter of fact, under this arrangement it was felt that there was not enough attention to policies related to Northern Ireland, with a lack of accountability of the parties involved.

The Belfast Agreement

A significant deficiency of the direct rule resided in the fact that political parties had 'all the advantages of political activity with none of the disadvantages of responsibility' (Bogdanor, 2001: 99). The establishment of direct rule was meant to be a short-term measure by the British government. Devolution should have followed shortly. However, despite several attempts to introduce it, between 1972 and 1997,² in the form of an independent assembly, and with the formation of a power-sharing executive, it was not until 1994 that significant measures towards devolution were to be taken.

When the IRA announced a cease-fire in August 1994, Sinn Féin was able to participate in the political debate. Multi-party talks started in 1996 between the elected representatives of the political parties culminating in the signing of the Belfast (or Good Friday) Agreement in 1998. This Agreement was approved by a referendum, held in May 1998, with a turnout of 81.1 per cent, of which 71.1 per cent voted in favour of devolution, and 28.9 per cent voted against. The Agreement proposed the election of 108 members to the Assembly by a single transferable vote for a fixed-term period of four years. The Assembly was devolved powers in the following areas:

- finance
- personnel
- agriculture
- education
- health
- social services
- economic development
- environment.

Among the devolved areas there is no provision for tax-raising power, as opposed to the Scottish Parliament. The most important characteristic of devolution as designed by the Agreement is the concept of power-sharing.³ This principle, recognised as an institutional novelty of the Agreement (O'Leary, 2002: 284), shapes the way in which the Executive is formed, and determines the voting procedures for taking 'key decisions'. The Executive is led by a dyarchy: the First Minister and the Deputy First Minister are elected jointly by the Assembly through a specific form of cross-community support (Bogdanor, 2001: 106): a 'parallel consent procedure' (O'Leary, 2002: 284). This means that there has to be the support of a majority of parties, a majority of the designated unionists and of the designated nationalists voting (Bogdanor, 2001: 106).

In this way, each community (unionists and nationalists) would have the ability to nominate a candidate for one of these positions that was acceptable to the other community. The First Minister and the Deputy First Minister hold office together, thus the resignation of one of the two implies the loss of the office for the other. In addition, they are semi-presidential figures because the Assembly cannot remove them. Both hold the same functions – symbolic and external representation – and have identical powers, leading and organising the activity of the 'Executive Committee' of ministers (O'Leary, 2002: 285). The advantage of this system resides in the incentives provided to each party in claiming their right to ministries. The dyarchy was designed for linking the representatives of the two communities together in order to obtain a consensus that would push towards an overall common policy, despite the absence of a pre-negotiated government programme. The disadvantage is due to the fact that the dyarchy necessitates the collaboration and cooperation of the First and the Deputy First Ministers and also of their respective majorities in order to function properly. This cooperation has proved to be very difficult to achieve and maintain (Bradbury and Mitchell, 2001: 268). According to O'Leary (2002: 286) two reasons have made the dual premiership an unstable device: a) the unreliability of the Unionist community in favour of the devolution process; b) the efficacy of the resignation weapon available to the First and the Deputy First Ministers.

The First and the Deputy First Ministers do not nominate the members of the 'Executive Committee'. These members are selected by party leaders in accordance with the number of seats that each party has acquired in

proportion to their strength in the Assembly. This mechanism was devised in order to ensure that any party has the opportunity of being part of the government. As a consequence, the executive is formed by a voluntary coalition, as parties can decide not to take part in it (O'Leary, 2002: 286).

Another important characteristic of the Northern Ireland Assembly, related to the principle of power sharing, is the existence of two forms of qualified majority voting applied when voting for 'key decisions': the choice of the First and Deputy First Ministers, dismissal from office, budgetary procedure, standing orders, election of the Assembly's Presiding Officer (Speaker), the programme for government, and policy issues defined as 'key' (Meehan, 1999: 20; Wilford, 2000: 580). Each member of the Legislative Assembly has to identify him/herself either as a 'Unionist', a 'Nationalist', or 'Other'. This process of self-labelling is necessary for the application of the test of cross-community support when voting for the 'key decisions' mentioned above, which have to be designated in advance. The cross-community support is obtained by what is called *parallel consent* – a majority of those members present and voting, including a majority of the unionists and nationalists present and voting.⁴ Those who designated themselves as 'Other' do not count. This mechanism of cross-community support has been considered controversial, because it protects the interests of the nationalists and the unionists, disregarding completely those members qualified as 'Others' (Meehan, 1999: 20). However, it has been designed in order to guarantee ministerial autonomy, avoiding the situation of transforming departments into 'party fiefdoms' (Wilford, 2000: 581), and to strengthen the model of partnership.

Within the Assembly, 'Statutory Committees' are created in order to provide a stronger and more focused power to the Assembly members in exercising the policy advice roles and their scrutiny powers over the work of the executive. These committees have the primary function of advising and assisting in the policy formulation of each of the departments with which they are associated. They also have the power to initiate primary legislation, thus sharing this power with the Executive Committee. Each of these Statutory Committees has eleven members. The Business Committee formally designates these members, although in reality the party whips allocate them according to a proportional principle.

Devolution in Scotland

The pre-devolution arrangements

Despite the fact that the Act of Union promulgated in 1707 abolished the separate parliaments for Scotland and England, Scotland retained many distinctive features, specifically a separate legal and administrative system, which reinforced the need for the Westminster Parliament to consider Scotland's specific needs. In addition, the assimilation of Scotland within the

UK was made more difficult by the influence of the Home Rule settlement in Northern Ireland, which kept Scottish nationalist feeling alive.

In 1885 the Scottish Office was established and this can be considered an initial form of devolution. The Office, held by the Secretary of State for Scotland, begun with hardly any functions and it was a department of the UK government. However, over time it acquired an increasing number of responsibilities for issues such as health, justice, education, agriculture, fisheries and farming, which in England and Wales were handled by nine or ten Whitehall departments. Until 1999 the statutory functions of the Scottish Office were administered by five main departments. The role of the Secretary of State for Scotland fulfilled two criteria: 1) it was recognised as a governmental device that ensured the handling of Scottish affairs in Scotland; 2) it guaranteed that the specific needs of Scotland were taken into consideration in policy making and legislation. However, any attempt to introduce or initiate policies that might have serious implications for the 'English' departments would be overruled by the UK government, thus setting the boundaries of the autonomy enjoyed by the Secretary of State for Scotland. According to Bogdanor (2001: 114) the role of the Scottish Office in the most recent years, before devolution, became less the one of a proponent of separate Scottish initiatives determined by different needs, and more one of an advocate for drawing increasing financial resources.

With the introduction of the population-based Barnett formula,⁵ which regulates the provision of financial resources from the Treasury towards Scotland, there has been less scope for the Secretary of State to do this. This has somehow undermined the position of the Secretary of State. In addition, there have been claims that the Scottish Office was held less accountable than the other English governmental departments. These claims were based on a number of points. First of all the Secretary of State had to divide his time between Westminster and Scottish Office duties, leaving very little time for exercising control over the implementation of decisions. Second, there was a problem of the overloading of the Scottish Executive as a result of the wide range of responsibilities attributed to the Scottish Office. More and more decisions were actually taken by civil servants rather than by the ministers. And finally, there was very little scrutiny of the activity of the Scottish Office in Westminster, as the time dedicated to enquiring over the Scottish Office's functions was set at once a month.

The pre-devolution special arrangements for the conduct of the Scottish business in the House of Commons did reinforce the idea of a Scottish political distinctiveness. The political arrangement for the Scottish affairs in Westminster reflected an anomalous situation. In fact there was a separate legal system and separate arrangements for governmental matters, but there was not a separate legislature and therefore not a separate electorate to which the Scottish executive was to be held accountable (Bogdanor, 2001: 117). During the 1970s, the dissatisfaction with the arrangements for dealing with Scottish affairs needed a different solution and devolution was advocated as

a democratic solution, which would have provided adequate institutions for preserving and representing Scottish interest and needs.

Similarly to what was happening in Northern Ireland, at the end of the nineteenth century and throughout the twentieth century, there was a claim by nationalistic movements for a Scottish home rule. The propositions for Scottish home rule were presented to the House of Commons on several occasions but they were never successfully approved.⁶ During the second half of the twentieth century, the Scottish Nationalist Party grew in strength and support, mostly as a party that could give voice to the Scottish identity. During the 1970s the argument towards the recognition of Scottish independence was fostered by the discovery of oil in the North Sea and by the UK joining the European Community. The discovery of oil brought about the argument that Scotland should have been in charge of the decisions on how to use and exploit this natural resource. The entrance of the UK in the European Community raised the preoccupation of the distance between Scotland and the European centre of decision making (Brussels) with the view expressed that Scottish issues would become even more peripheral than in Westminster.

In 1979 a referendum was held on proposals by the government for establishing a Scottish Assembly, but these proposals did not obtain sufficient electoral support. However, the pressure for constitutional change increased during the 1980s and 1990s pushed by a growing sense of Scottish identity, and feelings of difference (Brown, 2000: 543). The political system was considered inadequate in representing Scottish needs in Whitehall. In the meantime, all over Europe there was a growing debate on the principle of 'subsidiarity' and the need to bring political decision-makers closer to their community (Brown, 2000: 543). Thus, in 1989 the Scottish Constitutional Convention was established in order to frame a detailed plan for devolution. This plan included proposals for a Scottish Parliament directly elected by the Scottish electorate, holding wide legislative powers. Representatives of the Scottish civic society, including some of the political parties, formed this convention. The Scottish Constitutional Convention's Report, issued in 1995, was used as a model and starting point for further proposals on devolution, which were presented to the UK government in 1997. As already highlighted, these proposals were tested in the referendum held in September 1997, where the electorate showed a strong support in favour of devolution. The proposals for devolution were formalised in the Scotland Act 1998, following which the Scottish Parliament officially started in July 1999.

The shape of the 'new parliament'

The Scottish Parliament represents the principal institution (Mitchell, 2000: 606). The two distinctive features of the Scottish Parliament are the electoral system and its internal working. Regarding the first point, the electoral system proposed by the Convention was considered a model for representing a

significant change in the political culture. The electoral system had to represent the consensual nature, which was considered a fundamental model for the parliament itself, and had to provide a greater proportionality with the following benefits (Mitchell, 2000: 607):

- it would relate the number of seats for the different parties to the number of votes expressed for them;
- it ensures an equal representation of men and women, encouraging fair representation of minorities;
- it guarantees adequate representation of less populated areas;
- it maintains a link between members and their constituency;
- it is simple to understand;
- it would guarantee the electorate a significant power.

The outcome of the elections held in May 1999 was a parliament consisting of 129 seats to which members were elected combining the traditional 'first past the post' system with a form of proportional representation. Seventy-three members were elected in single-member constituencies, which were based on the pre-existing Westminster boundaries. Fifty-six members were elected in accordance with the proportional representation system called the Additional Member System, seven for each of the eight regions used in the European parliamentary elections (O'Neill, 2000: 80).

The Scotland Act designed a Scottish Parliament with considerable authority. Matters that are devolved include:

- health and social work
- education and training
- local government and housing
- justice and police
- agriculture, forestry and fisheries
- the environment
- tourism, sport and heritage
- economic development and internal transport.

The Scottish Parliament has full legislative competence. This comprises primary legislative power across a wide range of domestic policy areas and potentially the power to legislate in any non-reserved area of policy, and secondary legislation. It maintains the Scottish Office's responsibility for funding a wide range of services in Scotland and for overseeing other public bodies, including local governments and quangos (Bradbury and Mitchell, 2001: 268). In order to exercise this power the Scottish Parliament manages a budget of around £22 billion, which is spent among the devolved areas, listed above. Differently from the other devolved Assemblies, the Scottish Parliament is also given the power to vary income tax by up to three pence in a pound. However, the exercise of this power is subject to strong political

debate. Furthermore, the Parliament has control over local authority taxation in Scotland, and can raise revenue by charging fees for certain public services.

Regarding the second innovative characteristic of the Scottish Parliament, the Convention aimed to model a parliament that was to be significantly different from the Westminster model (Mitchell, 2000: 606). The John Wheatley Centre, the Scottish think tank later renamed as the Centre for Scottish Public Policy, commissioned a draft of standing orders to be submitted to the Constitutional Convention. The authors of the document, 'To Make the Parliament of Scotland a Model for Democracy', claimed the necessity to abandon the Westminster model and the importance of trying 'to invent and adapt procedures and working practices better suited to and arising from Scotland's more democratic civic tradition' (Brown, 2000: 545). The work done by the Convention was followed up by the Consultative Steering Group (CSG) appointed in 1997 by the Secretary for State for Scotland. The CSG was asked to develop proposals for the practical operation of the new parliament (Scottish Office). The Minister for Devolution chaired it, and 12 members, who included representatives from the four major Scottish parties, local authorities, academic, business and civic groups and interests, formed it. In 1999 the CSG published the report 'Shaping Scotland's Parliament', which included a comprehensive design for the working of the parliament.⁷ Four main principles that had to inform the operations of the new parliament were identified (Scottish Office):

- *Power-sharing*: the Scottish Parliament should embody and reflect the sharing of power between the people of Scotland, the legislators and the Scottish Executive.
- *Accountability*: the Scottish Executive should be accountable to the Scottish Parliament and the Parliament and the Executive should be accountable to the people of Scotland.
- *Access and participation*: the Scottish Parliament should be accessible, open, responsive and develop procedures that make possible a participative approach to the development, consideration and scrutiny of policy and legislation.
- *Equal opportunities*: the Scottish Parliament in its operation and its appointments should recognise the need to promote equal opportunities for all.

Following the application of these principles, a comprehensive committee system has been established. There are seventeen committees divided into eight mandatory committees (Europe, Equal Opportunities, Finance, Audit, Procedures, Standards, Public Petitions, and Subordinate Legislation) and nine subject committees that mirror the departments within the Executive. The membership of the committees reflects the political balance of parliament itself, thus avoiding the leadership of one single party, and the committees' conveners usually do not belong to the governing parties. This arrangement

was designed to guarantee a potential dynamic relationship between the executive and the parliamentary committees, even more so when the convener of a committee is from a non-executive party (Brown, 2000: 552). In order to apply the principle of power sharing, and to ensure greater accountability, committees have the power to initiate legislation, to scrutinise and monitor government legislation, and to conduct enquiries and take evidence from Ministers and civil servants (Brown, 2000; Mitchell, 2000). In order to comply with the principle of openness and greater access and participation, committees have been recommended to exercise their power of consultation with members of the civic society and to meet outside Edinburgh. Thus, this novel role for committees, both as policy makers assisting the Executive and scrutinisers of the actions of the Executive, has been considered as a key distinctive feature (Bradbury and Mitchell, 2001: 268).

Before devolution, the UK Parliament usually considered only one or two Scottish Bills each session. In the first legislative period 22 Bills have become Acts (<http://scottish.parliament.uk>), dealing with important issues such as housing, the creation of national parks, regulating issues relating to adults with incapacity. The ability to legislate on specific Scottish issues has been considered an important achievement of the new institution, which would not have been achieved without devolution (Scotland Office). In addition, individual members can introduce bills, and backbench members have had a greater opportunity for success than in the Westminster Parliament, in fact in the first legislative period, a number of Member's Bills had been introduced, six of which have been passed.

Devolution in Wales

The pre-devolution arrangements

Wales became part of the UK in the sixteenth century, and it was treated as if it were part of England, making it more difficult for the Welsh people to maintain their identity: 'For Wales, unlike Scotland, did not enjoy those independent institutions, which not only ensured separate treatment, but, more crucially, preserved the memory of independent statehood' (Bogdanor, 2001: 144).

Similarly to Northern Ireland and Scotland, nationalistic movements began towards the end of the nineteenth century. Their claims were principally concerned with reaching equality with England more than obtaining separation from the UK. The ferment for Irish Home Rule did provide a stimulus to the development of Welsh nationalist movements, as it had in Scotland. However, home rule in Wales was not considered an issue to be pursued as there was no desire for separation from the UK (Bogdanor, 2001: 147).

During the last twenty years of the nineteenth century, the Welsh liberals were trying to establish recognition of Welsh cultural aspirations and religious uniqueness, more than arguing for a Welsh Parliament. Indeed, unlike

Scotland, which had its own institutions in which the Scottish identity was formally recognised by the establishment of the Scottish Office, in Wales there were not specific political institutions. In the 1900s there had been a series of reforms, which aimed to decentralise administration. This process slowly created a Welsh distinctiveness, which therefore was not the result of strong nationalistic pressures, but it was a political decision taken at central level (in Whitehall and Westminster). The process of decentralisation concerned three areas: education, national insurance and agriculture. In 1907 a Welsh Department of the Board of Education was established. The creation of the Welsh Department was considered beneficial because it would have helped in providing 'a unified approach to the educational problems of each individual authority so that, at any one time, officials of the Welsh Department were able to see the whole range of educational services provided in a particular area' (Bogdanor, 2001: 157).

The Department had the power to transfer funds between primary and secondary education, and also to promote education in the Welsh language.

In 1911, following Lloyd George's National Insurance Act, separate national commissions were established in Northern Ireland, Scotland and Wales. The creation of the commissions was a successful project of decentralisation. In 1912, following the establishment of the Scottish Board of Agriculture, the office of Agricultural Commissioner for Wales, and the Advisory Council for Wales were set up. It was felt that a department dealing with these issues in Whitehall would not have been able to understand and deal with specific Welsh matters. This process of administrative decentralisation continued steadily and by the second half of the 1900s seventeen departments had decentralised administrative units in Wales. This process of decentralisation was not considered a form of devolution, with the government in London initiating it only for pragmatic reasons. In 1951 the first Minister for Welsh Affairs was appointed. He had no executive powers, nor a departmental apparatus. His powers were restricted to being accountable to the House of Commons for the effects of government policy and action, established in the annual White Paper on Wales, and leading the debate on the Welsh Day.

The first Secretary of State for Wales was established in 1964, following the Labour party's election victory. The powers held by the Secretary were fairly limited. He only had executive powers over the role of the Minister of Housing and Local Government and over roads. In addition, the Secretary was to take part in the policy-formulation process for the economic plans for Wales, and he was granted the powers of supervising the execution of the national policy within Wales by the other departments. The executive powers of the Secretary of State for Wales gradually expanded and by the 1970s its range of responsibilities became almost as broad as the ones held by the Scottish Office (Bogdanor, 2001: 160).

Similar to the Scottish Office, the boundaries of responsibility and abilities to exercise executive powers by the Secretary of State for Wales were limited by the rules of Whitehall. Welsh needs could be met only as long as their

claims were not to clash against policies set by the government in London. While the Scottish Secretary was able, to a certain extent, to contend for a separate and different Scottish legislation, the Welsh Office, due to the fact that Wales, unlike Scotland, did not have a separate legal system, exercised mostly a function of modifying the policy set by Whitehall in order to take into consideration Welsh needs and differences.

The criticisms of the Welsh Office were similar to the ones already examined for the Scottish Office. Griffiths (1999: 794) argues that in Wales different policies, through public expenditure, were implemented, as the result of two factors. First, territorial ministers had the option, in terms of financial resources and autonomy, of undertaking their own policies. Second, they were operating in a political culture considered to be more consensual than the one in England. However, the same author concludes that 'the level of Welsh autonomy was not appreciably greater at the end of the twentieth century than it was at its beginning' (Griffiths, 1999: 805). Thus, whilst the Welsh Office was responsible for several areas, it was considered to operate as an 'outpost of the central administration' (McAllister, 1999: 635). McAllister also criticises the process of administrative devolution towards the Welsh Office practised by the British government 'The Welsh Office's incremental and disjointed accrual of powers and responsibilities over the past thirty-five years meant a lack of strategy for coherent national policy-making' (McAllister, 1999: 635).

In addition, there was concern over the possibility that the more responsibilities the Welsh Secretary was attributed, the more decisions would have been made by civil servants. This implies the lack of a popular mandate, a 'democratic deficit' (McAllister, 1999: 635), which needed to be addressed. The problem of 'democratic deficit' was amplified by the fact that there was little time dedicated in the House of Commons to scrutinising the work of the Welsh Office. In fact, the Welsh question time usually lasted for an hour every month. Thus, the Welsh Office, as well as the Scottish Office, was regarded as unaccountable. This democratic deficit raised the issue of why Wales should be held accountable to Westminster when dealing with Welsh local issues. The creation of a directly elected assembly would allow developing and implementing policy differentiation with a legislative body that could be held accountable for it (Griffiths, 1999: 805). In 1979 the Scotland and Wales Bill proposed to apply home rule in Wales as well as in Scotland, as already examined. However, the Bill proposed an asymmetric form of devolution for Wales. While in Scotland the devolved assembly was to be given some executive powers over devolved Scottish Office responsibilities, in Wales the Bill established only local-government style committees. However, there was little support for devolution with only one in four voting in favour in the referendum (O'Neill, 2000: 73; McAllister, 1999: 636).

During the 1980s the debate on home rule echoed that in Scotland, concessions towards the recognition of a Welsh identity were made through the creation of the Welsh Language Board, and the Welsh Development Agency. However, there was still not very strong support for devolution. According to

O'Neill this was a reflection 'of deep ambivalence about political identity', and of the appreciation of a close integration of Wales with England (O'Neill, 2000: 76). Laffin and Thomas (2000: 558) identify three key segments of Wales: a Welsh-speaking Wales, a 'Welsh' Wales, which is centred on the most important old industrial areas, and an English Wales. To the extent that these segments exist, then different identities have difficulties in coexisting and they impinge upon the life and debates of Welsh politics.

The Wales Act 1998

The process of shaping the Welsh Assembly was characterised by the need to build a civic and political consciousness about its importance and about the Assembly's potential democratic benefits. Because of the lack of a strong support towards devolution, the idea of a Welsh Assembly was a fragile one, which needed to build up a 'sense of legitimacy' (Laffin and Thomas, 2000: 573). The historical background of separateness and the geographical and economic entwinement with England restrained the development of a strong sense of Welsh identity.

During the 1990s, an organised campaign for devolution emerged, but there was not official support from the political parties, and the campaigners did not have a strong public image or significant financial resources. *The Campaign for a Welsh Assembly* was established in 1987, advocating the economic benefits of a potential assembly. Its work continued in the 1990s. In 1993 it changed its name to *The Parliament for Wales Campaign*, trying to establish a convention similar to the one established in Scotland at that time, bringing together members of the different political parties in favour of a directly elected assembly. In July 1997, the Government published a White Paper, *A Voice for Wales*, which outlined proposals for devolution in Wales. These proposals were endorsed in the referendum of 18 September 1997. Subsequently, Parliament passed the Government of Wales Act 1998, which enabled the transfer of the devolved powers and responsibilities from the Secretary of State for Wales to the Assembly to take place on 1 July 1999.

After the 1997 Westminster elections, the Secretary of State for Wales set up the National Assembly Advisory Group, with the task of preparing guidance for the Standing Orders of the Assembly. The establishment of the National Advisory Group had deeper meaning and role than just setting up a proposal-working group. It was meant to strengthen a pro-devolution consensus among the political parties and the civil society (cultural and business groups) (Laffin and Thomas, 2000: 561). Fourteen members constituted the group. There were representatives of the four main political parties, of the groups campaigning for equal opportunities, local government, business, trade unions and a representative from the voluntary sector. This broad representation was once more an attempt to provide the future Assembly with the necessary legitimacy and recognition and also a way of reinforcing the principle of 'inclusiveness', which is a hallmark of the new institution. The

way in which the group operated was based on the need to work towards shared objectives. Subgroups were established, which were working on subjects such as legislative procedures, bilingualism, equal opportunity and issues related to open access (Laffin and Thomas, 2000: 562). The document that resulted from this cross-party group designed the operational practices of the new institution, and it was discussed with public meetings held across Wales in order to reach a wide consensus.

In contrast from Scotland, in setting up the operational framework for the National Assembly, the group was concerned mostly with the creation of a framework that would allow the Assembly to be as flexible as possible in determining its methods of working (McAllister, 1999: 640), and it was less concerned about conceiving an Assembly as different as possible from the Westminster model. However, there was an aspiration to design a Welsh Assembly based on a different model from both Westminster and local government. Key members of the Welsh political elite and also senior Welsh civil servants aspired to a different model, 'a sharp break with the traditions of a hidebound, anachronistic Westminster Parliament' (Laffin and Thomas, 2000: 559). The work of the group was then continued by the Standing Orders Commission, which presented a report where the procedures for the Assembly's operation were established. Similarly to the operation of the Scottish Parliament, the key elements of the new institutions were openness and accountability.

The Government of Wales Act established a membership of sixty members, elected for four years. The elections for the first Assembly were held on 6 May 1999 and each voter had two votes. The first vote is used to elect a local or constituency Member in the same way as MPs are elected to the House of Commons. Forty Assembly Members are elected on this 'first past the post' basis, one from each constituency in Wales. The second vote is used to elect twenty additional Members, on a regional basis, according to the Additional Member System. Thus, in Wales as well as in Scotland there was attention to guarantee proportional representation of political parties, reflecting to some extent the share of the vote political parties received. There are five electoral regions, based on the European Parliamentary Constituencies created in 1994, and each region returns four Members to the Assembly.

The National Assembly for Wales is considered to be a 'unique institution within the United Kingdom' (Laffin and Thomas, 2000: 557). The peculiarity of the Welsh institutions is to be found in the arrangements devised for the Assembly's political executive. As already pointed out earlier, the executive style proposed for Wales was to be based on the local government model of subject committees. This proposition had been modified, and a hybrid system, which combines the Westminster cabinet model with the committee structure, was agreed. Similar to Westminster there is a cabinet, but there is also a system of multi-functional committees, which does not resemble the Westminster model. This model came about after debate among the members of the National Advisory Group. They considered the committee model as

inconvenient and inefficient because it could hold back the decision-making processes. At the same time they expressed concern over the cabinet model, as a way of centralising too much power in the hands of the First Minister, therefore undermining the key principles of power-sharing and inclusiveness. On the other hand, the cabinet model was appreciated because of its potential for delivering a more rapid decision-making process and for guaranteeing focused responsibility among the members of the executive (Laffin and Thomas, 2000: 567).

Unlike Scotland, each area of responsibility of the Assembly for policy-making is defined in the Transfer Order. This arrangement has been considered a potential constraint of the powers of the Welsh Assembly (McAllister, 1999: 643), compared to the Scottish model. It also raises concerns about the nature and the extent of the powers held by the Assembly, as the implication of this limitation of role and responsibilities might imply 'responsibility without power' (McAllister, 2000: 595). The Assembly does not have the power of issuing primary legislation, but it is able to modify legislation in order to adapt it to specific Welsh needs. It does not have tax-varying powers, again distinguishing it from Scotland.

The Cabinet is the main decision-making body within the Assembly. Members of the Cabinet carry out most of the Assembly's functions by authority of the Assembly as a whole.

The Government of Wales Act requires the Assembly to elect a First Minister to serve as the leader of the Cabinet and the political leader of the Assembly. The First Minister in turn appoints eight Ministers (also called Secretaries), who make up the remainder of the Cabinet. Six Ministers are responsible for particular areas of policy decided by the First Minister, covering the following portfolios:

- Economic Development
- Agriculture and Rural Development
- Local Government
- Environment and Planning
- Health and Social Services
- Pre-16 and Post-16 Education.

Additionally, two members of the Cabinet – the Business Minister and the Finance Minister are concerned with managing the Assembly's business and finances respectively. All Ministers, and the Cabinet as a whole, are accountable to the Assembly. They have to answer oral and written questions from Assembly Members and (with the exception of the Business Minister and the Finance Minister) are also members of, and accountable to, the relevant subject committees.

Assembly members from all parties are able to express their opinions as to how each subject area should be dealt with by the executive. They do this mostly through subject committees, which cover the following areas:

- Agriculture and Rural Development Committee
- Culture Committee
- Economic Development Committee
- Education and Lifelong Learning Committee
- Environment, Planning and Transport Committee
- Health and Social Services Committee
- Local Government and Housing Committee.

The subject committees, which cover the ministers' portfolios, have the power to develop policies and to scrutinise what the Assembly does. Members are elected to work on the subject committees so that the balance of political groups in the Assembly is reflected, as far as possible, in the membership of each committee. The committees' membership varies from seven up to eleven members. The ministers are also members of these committees, but they do not chair them. Chairs of the subject committees are from the opposition party, sometime selected from minority parties, in order to guarantee the principle of inclusivity. This arrangement is considered to be an important novelty and a departure from the Westminster model (Laffin and Thomas, 2000: 557). The establishment of the subject committees is intended to counteract the power of the executive. They are not decision-making institutions, but they are able to scrutinise the executive's operations, calling civil servants to answer questions in open sessions. The subject committees would also have an important contributive role in dealing with significant secondary legislation, developing new policies, overseeing public appointments and also participating in the discussion on setting the budgetary priorities. These roles of the subject committees, which differentiate them substantially from the Westminster subject committees, are considered crucial for the transparency of the executive work. In addition, they allow all members to actively participate in the activities of the Assembly.

Other important committees, in addition to the subject committees, include for example: Audit Committee; Business Committee; Equality of Opportunity Committee; European Affairs Committee; Legislation Committee; Children's Commissioner Appointment Advisory Committee; Planning Decision Committee. Among these ones, the Business Committee, composed of the Presiding Officer and representatives of the Cabinet and of the minority parties, has the important function of organising the operations of the Assembly. The committees dealing with European issues and equal opportunities were suggested by the National Advisory Group in order to guarantee that significant issues, which would affect several subject areas, are treated in a coherent way.

In addition to the subject committees, and the other committees mentioned above, the Act established the creation of regional committees, which do not exist in the other devolved institutions. They are advisory bodies designed to enhance consultation and representation, which would establish closer links between historically different and geographically separated parts of the

country. The regional committees represent the needs and interests of their localities and they convey issues of local concern to the full Assembly and to the subject committees. There are four regional committees, which are made up of members from the relevant constituency and electoral region. According to Laffin and Thomas (2000: 571) they were established to dissipate anxieties about strong domination from the political centre.

The arrangements devised for the Welsh Assembly have raised the question of whether the subject committees can combine effectively the function of scrutinising the executive work while at the same time participating in policy development. Laffin and Thomas (2000: 575) observe that on the one hand the function of scrutiny is bound to create tensions between the Assembly and the executive, and therefore between committees and Assembly Secretaries. On the other hand, the function of policy development needs the establishment of a co-operative environment in order to secure agreement between members.

Conclusion

The path leading to devolution cannot be considered a stable and homogeneous process across Northern Ireland, Scotland and Wales. As described in the previous sections, the instances that brought about devolution are different for each polity. These differences reflect past experiences, historical ambitions and political interplay (Meehan, 1999: 19).

The different strengths and perceptions of national identity in Scotland and Wales is reflected in the process of designing devolution and the new institutions. According to Laffin and Thomas (2000: 574) an important distinction between the Welsh and the Scottish design process has to be attributed to the duration of the coalition-building procedure. In Scotland it developed over a longer time span than in Wales, since the devolution scheme started to be constructed by the Constitutional Convention.

Devolution has been defined as an 'asymmetrical constitutional architecture' (O'Neill, 2000: 78), in which Scotland and Northern Ireland benefit from wider legislative powers than does Wales. In Wales, the limited legislative competencies are a direct consequence of these asymmetrical arrangements, and make the Welsh arrangements the most fragile of the three devolved polities. This asymmetry could have a positive effect in trying to push the political entity that enjoys less independence to imitate the 'more devolved' institutions. However, these differences in legislative arrangements can prove to be difficult to manage (O'Neill, 2000: 78).

The asymmetrical nature of devolution affects the financial arrangements as well as the boundaries of legislative competencies. Tax-raising powers are strictly regulated by the legislation that introduced devolution. Wales and Northern Ireland do not have any discretion on tax raising. Scotland has been granted tax-varying powers to top up the resources transferred from the Treasury. This arrangement has stirred debates on whether 'a parliament

without taxation' is somehow a reduced institution (Meehan, 1999: 26). In Wales the absence of tax-varying power is in accordance with the legislative arrangements by which primary legislation has not been transferred from Westminster. In Northern Ireland, despite the Assembly being granted the power of issuing primary legislation, tax-varying powers were somehow 'regarded as unnecessary or, as a too radical departure from uniformity within the UK' (Meehan, 1999: 26). In this way the Secretaries of State retain an important power, as they are the 'principal paymasters to the devolved administrations': 'The perception of London holding the purse strings, thereby exerting an implicit, even an overt, veto over spending, could easily become another source of friction, since the fiscal arrangements of the union state remain largely intact' (O'Neill, 2000: 84).

Despite these different frameworks and powers, there is no doubt that devolution represents a 'large constitutional upheaval' (Bradbury and Mitchell, 2001: 257), and also an important process that has brought into the British political system significant innovations. The most significant ones are related to the new values that the new institutions carry, and their potential consequences. The introduction of power-sharing, inclusiveness, participation and accountability as fundamental principles, underlies the existence of the new parliament/assemblies. The principles of inclusiveness and power-sharing had found a practical application even prior to the establishment of the new parliament/assemblies. They led to the modification of the electoral system, in Scotland and Wales, through the Additional Members System (AMS), which introduced an element of proportional representation. The introduction of a system of proportional representation has been an important 'historic departure' (McAllister, 1999: 642), pioneered in the first Welsh and Scottish elections (McAllister, 2000: 592).

An important question resides in the way in which the principle of accountability is going to be applied. The different nature of the devolution process, and the diverse instances that brought about devolution in Northern Ireland, Scotland and Wales might influence the way in which accountability is achieved and pursued in each devolved institution.

Notes

- 1 The Secretaries of States for Scotland and for Wales were abolished in June 2003. These roles may have been considered superfluous as devolution bedded down from then until 2007. However, these Offices have not totally disappeared as they have become 'attached' to the Transport Secretary (for Scotland) and to the new Leader of Commons (for Wales).
- 2 British governments made provision by law on devolution three times: in 1973, 1975 and 1982, which failed as a government by agreement between the different parties involved was not achieved.
- 3 According to Wilford (2000: 578) the Agreement is built according to the key feature of 'consociationalism', which consists of the following key characteristics: cross-community power-sharing; proportionality rule; segmental autonomy; and

mutual veto. These are designed to enable political governance in a divided society and where majority rule is not tenable.

- 4 Or, alternatively, by a weighted majority of 60 per cent members present and voting, including at least 40 per cent of unionists present and voting, and 40 per cent of nationalists present and voting.
- 5 The Barnett formula (Research Paper 01/108, 2001, <http://www.parliament.uk>) is a non-statutory mechanism used by the UK government for apportioning public expenditure based on population share and not need. It aims to ensure that changes to programmes in England are reflected in equivalent changes in the budgets of the devolved institutions.
- 6 As Bogdanor recounts, between 1890 and 1914, propositions for Scottish Home Rule appeared thirteen times in front of the House of Commons.
- 7 The CGS was not the only group working on the development of the new parliament. In 1998 the Financial Issues Advisory Group (FIAG) set the Secretary of State for Scotland the task of proposing rules, procedures, standing orders and legislation for the handling of financial issues by the Scottish Parliament.

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4 Accountability in the UK devolved parliament and assemblies

Simona Scarparo

Introduction

The process of devolution in Northern Ireland, Scotland and Wales has adopted accountability as one of the key principles that underline the operations of the devolved institutions. Indeed accountability has been considered a fundamental concept (Glynn, 1993: 15), and ‘an enduring and key notion’ (Gendron *et al.*, 2001: 282) in public sector management. The term ‘accountability’ means in general that someone is responsible for rendering an account about something to someone else. However, this term has been described as elusive (Sinclair, 1995: 219) and its scope and meaning has broadened into different directions beyond its basic definition of providing an account for one’s actions (Mulgan, 2000: 555). Moreover, specific institutional arrangements impinge on the meaning attributed to accountability (Stone, 1995). In the academic literature, its definition exists in a variety of forms being shaped by social and political contexts (Day and Klein, 1987: 2). Thus, accountability ‘reveals chameleon qualities’ as at least five forms of accountability can be identified (Sinclair, 1995: 223): political, managerial, public, professional and personal.

Day and Klein (1987) argue that the distinction between political and managerial accountability sets the framework in order to understand the nature of the problems encountered when trying to define the boundaries of what accountability is. Within the concept of *political accountability* they identified different models,¹ which are the expression of the evolution of social political democracy (Day and Klein, 1987: 10). Within this framework political accountability is defined as ‘about those with delegated authority being answerable to people, whether directly in simple societies or indirectly in complex societies’ (Day and Klein, 1987: 26). *Managerial accountability* instead is conceived as ‘making those with delegated authority answerable for carrying out agreed tasks according to agreed criteria of performance’ (Day and Klein, 1987: 27). Within the general criterion of answerability, the activities performed by individuals differ, therefore the basis upon which holding to account are different. Stewart (1984: 16–19) elaborates a concept of accountability as a ‘ladder’ which moves from ‘accountability by standards to accountability by judgement’:

- *Accountability for probity and legality* aims to guarantee that funds have been used according to previous plans and observing the appropriate rules. It also aims to ensure that decisions have been taken within the realm of power/authority.
- *Process accountability* aims to ensure that the procedures used to carry out a task are adequate.
- *Efficiency accountability* is focused on the way in which resources are used (best value for money).
- *Performance accountability* aims to ensure that the performance achieved meets the set standards.
- *Policy accountability* regards mostly the operations of central governments. It is concerned with the assessment of the policies implemented by governments and their standards, for which governments are accountable to the electorate.

Much of the debate around the need to ensure accountability within parliaments, governments and civil servants, in Britain, started three decades ago (Day and Klein, 1987). It was argued that the straight-line relationship of accountability (i.e. civil servants are accountable to ministers, and ministers are accountable to parliament) was fractured (Day and Klein, 1987: 33). Indeed the growing complexities and scale of governmental activity have intensified the need of accountability within parliaments, governments and the civil service (Stewart, 1984; Day and Klein, 1987; Glynn, 1993; Power and Brazier, 2001). The field of public accountability, specifically the formal relationship between parliamentary institutions and governments, has expanded the concept of 'what to account for' and how to do so, as Heald (1983: 155) clarifies:

The growth in the public sector, both in terms of its scale and the diversity of its activities, has outstretched the traditional machinery of public accountability, heavily dependent upon the formal relationship between the executive and the legislative. There have emerged alternative views of what accountability entails, involving different answers to both the substance and the form of the account. The concepts of accountability, which now dominate the debate, are political accountability, managerial accountability and legal accountability.

(Heald 1983: 155)

Thus, parliaments and governments have to provide a form of 'public accountability', which takes the shape of an overarching umbrella (Glynn, 1993). It incorporates the different basis of accountability systematised by Stewart (1984) in his 'ladder of accountability', within the three dimensions identified by Heald (1983). Thus, political accountability encompasses (Glynn, 1993: 18–19): constitutional accountability – which is the characteristic of parliamentary systems; decentralised accountability – which allows decentralisation

of control; consultative accountability – which refers to the involvement of interested parties and pressure groups. Managerial accountability comprises (Glynn, 1993: 18–19): commercial accountability – which relates to publicly owned organisations financed by user charge and not by budgetary appropriations; resource accountability – which calls for the adoption of managerial practices that will promote the efficiency and effectiveness of non-commercial entities by the establishment of an appropriate budgetary control framework; professional accountability – which relates to processes of self-regulation by professional groups employed in the public sector. Legal accountability is made of (Glynn, 1993: 18–19): judicial accountability – which refers to the review of Executive actions at the instigation of an aggrieved individual; quasi-judicial accountability – which refers to the control of administrative discretion, e.g. by review tribunals; procedural accountability – which refers to the review of decisions by an external agency, usually by an ombudsman.

The definitions and representations of accountability so far considered provide a conceptualisation that depicts a hierarchical model. In order to work, the hierarchical relationship needs to rely on a series of assumptions that have been questioned (Day and Klein, 1987) leading to the debate on the ‘accountability gap’ within the relationship between political and managerial accountability.

The ‘accountability gap’

An important aspect of the relationship between the different dimensions of accountability, previously identified, is to be found in the link between political and managerial accountability. This link, which resides in ministerial offices, should be existent and effective. However, when analysing the role of ministers and the ways of discharging ministerial responsibility, Day and Klein argued that ministerial responsibility is divided into two important parts. Ministers are accountable *to* parliament for the activity of their department. At the same time, they are accountable *for* the actions of the civil servants that work in their departments. The discharge of accountability to parliament is an expression of political accountability, while the accountability for civil servants’ actions reflects managerial accountability. Thus, the discharge of managerial accountability of ministers depends on the extent to which it is possible within a parliamentary and governmental system to exercise some form of control of the activity.

According to Barberis (1998: 451) there is an incongruity between the practical application and the doctrine of accountability in British government (Barberis, 1998: 451):

Ministers are accountable to the public, via Parliament, for their own decisions and for the work of their departments; civil servants are accountable internally – and only internally – to their political chief. . . . Ministers cannot blame their civil servants when things go wrong

because if ministers could blame the civil servants, then the civil servants would require the power to blame the minister. Such would violate the impartiality and anonymity of the civil service, so undermining the authority of democratically elected ministers. And if ministers are impaired, so too is Parliament since it is through ministers that Parliament seeks to bring the executive to account.

(Barberis 1998: 451)

This incongruity finds its origin in the disregard of agency and public officials' personal responsibility, which is behind the choice of accountability and obligation (Roberts, 2002: 659). This choice leads to Harmon's accountability paradox and its relative pathologies (Roberts, 2002: 659):

Paradox of accountability If public servants are solely accountable for the achievement of purposes mandate by political authority, then as instruments of that authority they hold no personal responsibility for the products of their actions. If, however, public servants participate in determining public purposes, then their accountability to higher authority is undermined.

Pathologies generated

Atrophy of political authority Granting public servants the responsibility to establish public purposes makes public servants answerable only to themselves and enables them to covertly manipulate political processes that determine public purposes.

(Roberts, 2002: 659)

This paradox highlights the inherent problems of ministerial responsibility, which are generally recognised and demand new solutions (Barberis, 1998: 452). The questioning of the effective capacity of ministers to being held accountable for the work of the civil service and the need to show to the electorate a clear link between policies and what has been achieved, has increased the demand for greater openness of the political institutions.² Different mechanisms for assuring a more reliable accountability needed to be implemented. Thus, a number of initiatives, the New Public Management initiatives, were implemented from the 1980s and onward, which called for enhancing accountability through improving efficiency and implementing systems for measuring and monitoring performance. These are all elements that pertain to the realm of 'managerial accountability'. In a way, the assumption that efficiency and accountability are 'two sides of the same coin' (Day and Klein, 1987: 42) was developing, as the emphasis of the reforming process strengthened the idea that effective political accountability relied on effective managerial accountability. New Public Management initiatives were considered to enhance accountability, extending its scope beyond compliance (Sinclair, 1995: 219). The complexities of the relationship between ministerial

and civil service responsibility (Wilson and Barker, 2003) have been brought into sharper focus by the New Public Management initiatives, which have 'exacerbated and made more visible existing fault-lines in the systems of accountability' (Barberis, 1998: 460).

The Hansard Society's Commission on Parliamentary Scrutiny explored the issue of how members of parliament (Westminster) exercise accountability. The Commission looked at debates, ministerial questions, inquiries conducted by select committees, and also the work of the National Audit Office and the Ombudsman. In addition, the Commission examined non-parliamentary procedures of holding the government to account such as the work done by courts, regulators, inspectors and judicial enquiries. The result of the enquiry brought to light an inadequate and disconnected system of accountability. Governmental scrutiny appears to lack rigour and systematisation, and little evidence has been found on the ability of parliamentary enquiries to identify responsibility for failing by the Executive, and to make sure that the Executive puts into place adequate measures and follows recommendations.

The report issued by the Commission, *The Challenge for Parliament: Making Government Accountable*,³ reinforces the concept that Parliament has to remain the leading institution for guaranteeing accountability. It should use better the resources available, both external (for instance the enquiry by external regulators and commissions) and internal (promoting the role of the Select Committees). Better co-ordination of the different activities performed by the members of parliaments is advocated. The report identified seven principles through which objectives may be achieved (<http://hansardsociety.org.uk/ChallengeforParliament.html>):

- *Parliament at the Apex* Parliament should be the leader institution for scrutinising the government. In doing so it should provide a framework for co-ordinating the activity of the different bodies responsible for monitoring the provision of government services. Members of parliament should incorporate the information provided by these bodies within a more formal and systematic appraisal of the Executive work.
- *Parliament must develop a culture of scrutiny* The Commission suspects that members of parliament do not have a clear understanding of their role in holding the Executive to account. Thus changes in MPs' attitudes and behaviours are advocated. In particular, the commission highlighted the lack of cross-party activities, which leaves the task of governmental scrutiny to the opposition.
- *Committees should play a more influential role within Parliament* The role of the select committees should be pivotal in making parliamentary scrutiny effective. The Commission suggests:
 - a better-defined role for the committees, with specifically defined responsibilities and pre-determined objectives;

- committees should take care of monitoring systematically the work of Executive departments and agencies;
 - committees should provide regular scrutiny of Executive agencies, regulators and quangos;
 - committee structure should be modified in accordance with new methods of work.
- *The chamber should remain central to accountability* The commission advocates a central role of the chamber as the locus where ministers should be held to account. As a place of public representation of the House of Commons, it is considered as the main channel for informing and influencing the electorate, thus public interest and attendance to debates should be stimulated and improved. Regarding the content of the debates it is suggested that their capacity for scrutiny needs to be improved, with shorter debates and more time allowed for questions. Backbenchers and members of the opposition party should be given more chances for questioning ministers, and there should be time for cross-party public interest debates.
 - *Financial scrutiny should be central to accountability* The House of Commons is considered to hold a special responsibility for scrutinising tax and spending proposals. The Commission reckons that members of parliament are not fully performing their role in ensuring value for money of the Executive policies and in supervising that money is spent sensibly. Financial scrutiny is recommended as central to the work of parliament and the commission highlighted the need for promoting better procedures, which would provide the members with the necessary resources for exercising financial scrutiny.
 - *Parliament must communicate more effectively with the public* The Commission claims that there is a strong need for improving communications and responsiveness to the public. At parliamentary level it is suggested there is a need to increase media coverage, and to render parliamentary affairs more understandable to the public. The committee should extend their range of consultation and better inform the public about their work.

The analysis and recommendations of the Commission further reinforce the need to develop other forms of accountability. A more informal horizontal relationship (Roberts, 1991) is involved in accountability, which emphasises interdependence between political institutions and its members, and between citizens and their political representatives. Several authors (Day and Klein, 1987; March and Olsen, 1995; Mulgan, 2000; Roberts 2002) consider the process of accountability as a 'dialectical activity'. This activity is shaped by two logics: on the one hand the logic of answering, explaining and justifying, informs the perspective of those who are asked to account for their actions. On the other hand the logic of asking, evaluating and judging, shapes the

point of view of those who hold to account (Mulgan, 2000: 569). Within this process, the role of information is crucial as it forms the 'raw material to account' (Stewart, 1984: 26), which in this context is considered to be 'a source of power, guarded by the institution rendering to account' (Stewart, 1984: 26). Thus, the content of information to be provided, the way in which it is made available to those who hold to account and to a wider interested public, and the right to access, impinge on the effectiveness of the process of accountability mechanisms within parliamentary and governmental institutions. Strengthening the concept of dialogue as a mechanism of accountability is envisaged as a way of rendering the process more transparent, where there would be production and use of information that is less controlled by the accountable institution (i.e. the Executive). In addition, it would create a space where appropriate information could flow freely, a space that would provide an effective forum for discussion and assessment. Finally, it would reinforce traditional accountability mechanism making participants more transparent and visible.

The establishment of the devolved assemblies in Northern Ireland and Wales and the Parliament in Scotland has been interpreted as a way for enhancing democratic control and accountability in the UK (Midwinter and McGarvey, 2001: 47). The devolved institutions offer the opportunity to shape the relationship between parliament/assembly and the Executive more in harmony with the concept of accountability process based on dialogue. Devolution has been presented as a way for fostering a 'new politics' (Hazell, 2003: 286, our emphases):

The 'new politics' has pioneered a new form of civic engagement: it has attempted to build elements of participatory democracy into the work of the devolved assemblies, alongside the traditional forms of representative governments. *The advocates of devolution promised that it would usher in a new kind of politics: more consensual, more participatory, more inclusive than the adversarial party politics and political games played at Westminster.*

(Hazell, 2003: 286)

Accountability arrangements in the UK devolved parliament/assemblies

As discussed in the previous chapter on the process of devolution in the UK, the new devolved institutions have made accountability a key principle for their operation. In Scotland the report *Shaping Scotland's Parliament* issued in January 1999 by the Consultative Steering Group, appointed by the Secretary of State for Scotland for developing the practical operations of the Parliament, included the principle of accountability among the four key operational principles. In this document accountability is defined as follows: 'The Scottish Executive should be accountable to the Scottish Parliament and

the Parliament and the Executive should be accountable to the people of Scotland’.

This simple definition adheres to the straight-line relationship of accountability mentioned in the introductory section of this chapter. In Wales and Northern Ireland there is not such a formal statement of key principles underlying the formation of the new political institutions. However, in Wales the process of devolution has been associated with the strengthening of accountability (National Assembly for Wales, 2001: 1): ‘This was a year of beginnings, creating our new and historic institution of devolved government, bringing accountability to the three million people of Wales’ (Rhodri Morgan, Welsh First Minister).

In all the devolved parliament/assemblies the arrangements through which accountability is assured and discharged are very similar. The process of accountability has been designed involving three different levels, as shown in Figure 4.1.

The full Parliament/Assembly

The full Parliament exercises its role of scrutiny of the Executive when debating in plenary session the legislative programme announced every year by the Executive, and any time the Executive presents a revised programme during a legislative session. In Scotland, the Consultative Steering Group suggested that the Executive should provide detailed statements regarding its political programme. The annual statement should present the primary aims, the objectives, the policy priorities and the ways (legislative, Executive and administrative) in which the Executive intends to fulfil them. Furthermore, the Consultative Steering Group suggested that the format of the statement could be an annual report, which shows the progress made in the previous year, provides explanation for changes, and it should present data on performance review through the use of adequate performance indicators. The

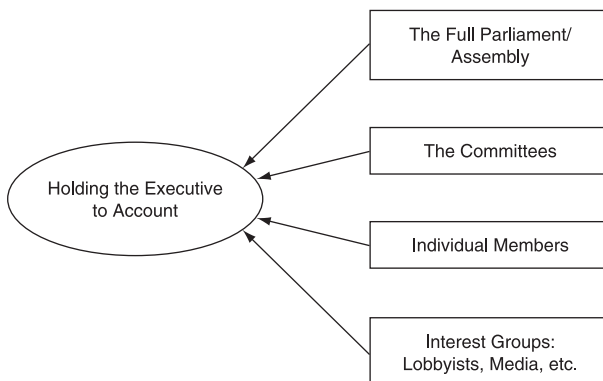


Figure 4.1 The accountability process in UK devolved institutions.

Executive financial proposals (the budget) have to be presented and discussed separately from the political programme. General debates on matters of public policy can occasionally be held in plenary sessions. These debates can be initiated by the Executive, by non-executive parties, by Committees or by a specified number of members of Scottish Parliament.

Another mechanism for enacting accountability is the vote of no confidence. Any member should be able to present a motion for a vote of no confidence either in the entire Executive or in a named minister. In Scotland, this motion, which needs to be supported by a specified minimum number of at least twenty-six MSPs, has to be debated and voted upon. If the Executive does no longer have the support of the Parliament, the First Minister must tender his/her resignations and the Scottish Ministers must resign. If the Parliament approves a motion of no confidence in a named Minister, this does not cause the resignation of the named Minister.

The committees

The role of the committees is central to the issue of accountability. The Scottish Consultative Steering Groups suggested that the committees should be able to scrutinise the work of the Executive through different methods. First, it was recommended that committees should have the power to conduct enquiries and take oral and written evidence from Ministers, civil servants and others.

Second, committees play an important role during the policy development and the pre-legislative process. The Steering Group devised a recognised policy-development stage, which would provide committees with a strong role in considering legislation (Report of the Consultative Steering Group, 1998, section 3.5:3): 'A formal, well-structured, well-understood process would not only deliver a scrutiny stage pre-introduction, but would also allow individuals and groups to influence the policy-making process at a much earlier stage than at present' (Report of the Consultative Steering Group, 1998, section 3.5:3).

Individual ministers present to the relevant subject committees more detailed information on the related part of the Executive's annual proposal, defining in depth their purposes and objectives; their arrangements for effecting the plans, whether and who they intend to consult. At this early stage the committee would be able to exert quite a lot of influence on the development of the policy, and it would have also the opportunity of expressing any reservations or complaints to the Executive at a stage early enough to have an impact on the Executive's operation. In this role committees are seen as 'the revising chamber' (Report of the Consultative Steering Group, section 3.5) as they scrutinise draft legislation, exercising a monitoring and enforcing role to ensure that all requirements are met.

Third, committees are involved during the process of introducing bills. After a bill has been debated and voted upon in plenary session (Stage 1) the

bill is then referred to the relevant committee. In this stage (Stage 2), committees prepare a report to the Parliament as to whether or not the Bill should be approved, and comment also on the Memorandum⁴ that accompanies the bill.

Fourth, committees hold important financial management functions in the budgetary process. Subject committees have the power and the opportunity to make recommendations on spending priorities and commission specialised reports which are prepared to tightly controlled budgets. The Finance Committee holds a key role in the budgetary process. It is responsible for addressing overall budget priorities; it is required to gather and consider the views of the subject committees and individual MSPs, and to scrutinise the expenditure proposals of the Executive. The results of the Finance Committee's analysis inform the debate of the Plenary on budgetary issues. The Executive should then take the outcome of the plenary debate into consideration in their financial plans. The Audit Committee holds the leading role for analysing the financial audits reports of the spending agencies that are accountable to Parliament (for instance the Departments of the Executive, NDPBs and Health Service Bodies). In addition, it examines reports commissioned from experts which cut across different subject areas, working jointly with the relevant subject committees when required.

The subject committees, the Finance and Audit Committees are able to scrutinise the accounts and the Scottish administration has to be held accountable to Parliament for the way in which public money is spent. The Principal Accountable Officer and the senior officials, nominated by the Principal Accountable Officer for different areas of administration, have to answer to Parliament for their operations, through the Finance Committee, the Audit Committee and the subject committees. Furthermore, if the Committees are reviewing a specific issue for which the presence of the Accountable Officer is considered of help, in addition to or instead of the Accountable Officer the manager with specific responsibility for that issue can attend the committees and can be called to give evidence, both to provide examples of good practice and to justify actions when errors occur. This measure is evidently in contrast with the procedures before devolution, where Accounting Officers enquired into officials' work only when something appeared to have gone wrong. This new arrangement should allow committees to establish co-operation with the administration strengthening the accountability process, through the promotion of a free flow of information between Parliament and the administration, and the openness and transparency of the government.

In Northern Ireland there are three types of committees: statutory committees (also called departmental committees), non-statutory committees, which consist of standing committees (permanent committees of the Assembly) and ad hoc committees. According to the Belfast Agreement, statutory committees are designed to work in partnership with each of their 'target' departments, in conformity with the principle of power-sharing. Similarly to the Scottish subject committees, they have advisory, consultative and policy

development functions, and are responsible for scrutinising policies and legislation brought forward by each of the Executive's departments. In addition they will have a role in the initiation of legislation and are specifically given the following powers (First Report of the Northern Ireland Commission, 2002):

- consider and advise on the Departmental budget and annual plans in the context of the overall budget allocation;
- approve relevant primary legislation and take the committee stage of relevant primary legislation;
- call for persons and papers;
- initiate enquiries and make reports;
- consider and advise on matters brought to the committee by its minister.

Amongst the statutory committees, the Finance and Personnel Committee, similar to the Scottish arrangement, holds a key function in the accountability process. This committee has the responsibility for advising and assisting the Minister of Finance and Personnel in the formulation of policy, policy development, and has consultation role with respect to matters within the minister's responsibilities. In addition, this committee has the central role of prompting the scrutiny of the budget proposals, considering and advising on departmental budgets and annual plans, and co-ordinating the Assembly Committees' responses to the Executive's Position Report to the Assembly (Developing the Programme for Government and the Budget for 2003–04, Resources Issues, 2002).

In Wales, as in Scotland and Northern Ireland, there are subject committees and standing committees, but unlike the Scottish and Northern Irish counterparts, there are four regional committees, which look after the interests of the regions. Every area of the Assembly responsibilities is covered by one of the subject committees. They hold the following functions:

- contribute to the development of Assembly policy in their area of interest;
- scrutinise administration related to the implementation of Assembly policy;
- scrutinise the expenditure connected with the implementation of Assembly policy;
- review the discharge of public functions by public, voluntary sector and private institutions in their policy areas;
- take decisions in exceptional circumstances.

(The National Assembly for Wales, 2001)

Each Assembly Secretary is a member of the subject committee that covers their areas of work, in order to have direct contact with and immediate feedback from the committee. Differently from Northern Ireland and Scotland, the Welsh Assembly does not have a finance committee. The scrutiny of the

budget proposals is dealt by the subject committees, which are invited to provide their views on their spending priorities during the Budget Planning Round, and to examine and comment on the draft budget.

Individual members

Individual members of the parliament/assemblies can obtain information and hold the Executive to account through oral and written Parliamentary Questions. The submission of oral and written questions, which are intended to be used for obtaining information and not for political point scoring, has to follow a specific procedure (defined in the Standing Orders).

Interest groups

Having adopted a policy of openness, transparency and involvement of the citizenship in their operations the new parliament/assemblies can be easily approached by lobbyists' groups, and are more open to tight scrutiny of the media. Indeed local press can exercise strong pressure on members of parliament/assemblies and executives, as it increases their visibility to public opinion.

Accountability and the views of 'who holds to accounts' and 'who is held to account'

The empirical research aimed to explore what is the comprehension of the different actors in the UK devolved institutions (i.e. politicians, civil servants and external experts) of the concept of accountability, and to map their notions according to the different dimensions of accountability previously illustrated in the introductory section to this chapter. The interviewees were asked to explain what they understood accountability to mean and what it signifies to them. Most of the participants held a broad view of accountability, and for the majority of them the most important element of accountability resides in the realm of public/political accountability, i.e. giving account to the electorate. The process of accountability is identified according to the straight-line relationship between electorate, parliament, government and civil service, where the line of accountability is considered clear and straightforward: the assemblies/parliament are accountable to the electorate, the ministers to the assemblies/parliament, and the civil servants are accountable to ministers for their work on the ministers' behalf.

Participants recognised, however, that accountability is a multifaceted concept, which can be defined in different ways and involves different bases upon which one is held to account, and the different people to whom one has to render an account. At one level, accountability has been defined as 'political', which is associated with the process of representative democracy and with the role of the governments who have to account for their actions to the 'ballot

box'. On a different level accountability has been defined as 'ministerial', when referring specifically to the duties of ministers to account for their decisions and actions to the assemblies/parliament. And finally, there is the recognition that there is a 'managerial' accountability, which meant being able to identify who is responsible for doing what and to ensure that it is done, and also being capable and having power to monitor the use of public money.

Among the participants, there is a general acknowledgment of the benefits of devolution in strengthening the process of accountability within parliament/assemblies and the Executive. These improvements are associated with an increased level of scrutiny of the work done by ministers. The level of scrutiny has increased as a result of the enhancement of the opportunities for understanding what a politician does, or is supposed to do. The political structure allows having a focused group of people who are concerned with specific national issues.

The positive effects of devolution in strengthening accountability have been attributed not only to the increase in the level of scrutiny of the Executive and civil service's activity, mostly exercised by committees, but also to an increase in the flow of information, openness and dialogue between parliament/assemblies, the Executive and the civil servants. This has been described by the majority of the interviewees as a learning process, where ministers and civil servants try to engage with members of parliament/assemblies in building together an information system that meets their different needs. The new political structure favours the creation of more targeted information, which flows through a formal channel. It also allows facilitating and promoting less formal channels of communication especially between civil servants and members of the assemblies/parliament, which seems to have increased the opportunities to hold ministers and civil servants to account.

However, there are some sceptical comments on the effectiveness of the accountability process and the procedures of communication and provision of information. Some members considered the provision of information too unstructured, with too many documents (for instance programmes for Government and budgets) that do not tie up together. Some members felt that the volume of information is really high but its quality needs improvements in term of being sharper and more focused. In the Northern Ireland context, the criticism of the system is concentrated not only on the quality of information provided by the Executive, but also on the way in which its composition is determined. Criticisms have been raised about the way in which the Executive is appointed and how it operates. The assembly does not appoint ministers and they do not have any legal or political obligation to take into account what the committees might suggest. This lack of a 'sense of collective responsibility' reflects on the ability of the committees to exercise properly their role in enhancing co-operation and dialogue among the political institutions.

Other problems related to the capacity of the system to hold ministers to account, specifically related to the role exercised by the committees have been

highlighted by some Welsh Assembly Members. It is entirely a ministerial decision whether or not to take into consideration the suggestions made by the committees. To make the matter more complicated ministers are members of the committees. The thinking behind the arrangement of having a minister sitting in the committee of the relative area of responsibility, which is to be found only in the Welsh Assembly, is that this would build stronger links between the Executive and the parliament. Dialogue and co-operation would be enhanced, making ministers more accountable. However, there is always the possibility that ministers do not take on board the advice of the committees. Even more problematic, this arrangement could lead, paradoxically, to a decrease in ministerial accountability, as ministers could exert some pressure on the committees' members.

Similarly, some doubts on the effective discharge of accountability of the Executive through parliaments and committees have been raised in the Scottish context. Some civil servants suggested that the media play a more fundamental part in the process of discharging accountability than having debates in parliament and committee hearings. The extent of the media interest in what the Scottish Parliament and the Executive do has increased dramatically, forcing politicians to consider an additional level of accountability: a 'practical accountability'.

Conclusion

Devolution and accountability are strongly interconnected. The process of devolution has been advocated and welcomed by its architects and supporters as the way forward in order to strengthen political and managerial accountability. The empirical analysis of how politicians, civil servants and other actors involved in the devolved institutions understand and make sense of the changes in accountability, showed the merits and achievements of the process as well as the problems that still remain to be resolved.

A positive aspect of devolution resides in the fact that it enacted a process of search for and experimentation of different mechanisms and procedures through which to regulate and shape the operations of the political institutions and the relationship among them. The level of accountability, both of ministers and civil servants has dramatically increased because of the enhanced level of scrutiny exercised by the members of the parliament/assemblies. Contrary to the Westminster arrangements, subject committees are given an important and central role in the function of scrutiny of the Executive's operations, which seems to be seriously exercised by the committee members.

In addition, committees have the opportunity of participating more in the legislative process. This opportunity reflects positively on the accountability process at different levels. First, on a formal level, committees can impact upon the decisions taken by the Executives, as they have specific roles and statutory responsibilities for advising ministers, consultation at policy development

and pre-legislative stages, and key financial management functions in the budgetary process. Second, on an informal level, the operational mechanisms devised by the devolved institutions work in favour of developing a process of dialogue between the political actors (ministers and members of the parliament/assemblies), civil servants and the public. These mechanisms impinge upon the content of the information that is shared between parliament (those who hold others to account), Executive and civil service (those who are held to account). The arrangements made in order to empower committees and individual MSPs, the resources made available to them – for instance the creation of a parliamentary research centre in Scotland (SPICe) – do impact positively on the accountability process. They provide a better flow of information and a less controlled availability of it to committees as well as back-benchers. Civil servants have a more direct contact with the members of the parliament/assemblies, as committees can invite them to give evidence and to answer questions. In this way there is less ministerial interference in the relationship between parliament and officials, a positive aspect that provides a fertile ground for establishing more collaborative work and less confrontational exchanges between committees and the civil servants.

However, the experimentation with new mechanisms and operational procedures is considered still a work in progress, a thought expressed by many politicians, civil servants and other members involved in the work of parliament/assemblies. Concerns have been expressed in the quality and the amount of information that is available to individual members and committees. The quantity should be less and the quality could be improved in order to allow members to exercise properly their role of holding to account. Furthermore, criticisms have been raised over the ability of committees to hold ministers and civil servants effectively to account. The range of critiques varies extensively. On the one hand, some members express a very strong disbelief in the system, which is thought to be lacking in collective responsibility, as expressed in the case of the composition of the Northern Ireland government. On the other hand, less strong but still critical views on the committees are expressed with regard to the inability of members to fully understand their role and to take full advantage of the potential of the system in terms of challenging and influencing seriously the Executive's decisions.

Even though there is still progress to be made in strengthening political and managerial accountability, overall it is possible to say that the process of devolution has increased accountability. The devolved institutions have set up formal procedures at different levels (parliamentary, committee and individual), with the specific aim of overcoming the 'accountability gap' criticised in the Westminster model. In addition, there is a renewed awareness among the members of parliament/assemblies of the importance of their role not only in scrutinising governments but also in collaborating with the Executive and the civil servants. It remains to be seen how far the willingness of members of the Scottish, Northern Ireland and Welsh parliament/assemblies will progress in shaping effectively a 'new kind of politics'.

Notes

- 1 The different models of political accountability identified by the authors are the following: Athenian; Feudal; Transitional; Simple modern; Complex model. These models move from a simple and direct concept of accountability to a more complex system of links between different administrative tiers related to the complex and diverse role of the state.
- 2 Stone (1995) argues that ministerial responsibility is part of a broader principle of administrative accountability, and that the latter has been at the centre of a significant and complex process of change. Thus, the author sustains that five main concepts of accountability are needed to better 'comprehend the practices which now constitute administrative accountability' (Stone, 1995: 523). Parliamentary control, managerialism, judicial/quasi-judicial review, constituency relations and market, are identified as the relevant and multiple systems of accountability, which coexists within administrative accountability. The issue, thus, becomes how best to combine these different systems of accountability without impairing the effectiveness of the administrative work.
- 3 Hansard Society (2001) *The Challenge for Parliament: Making Government Accountable*, London: Vacher Dod.
- 4 The memorandum is a document that explains the need for the legislation, the options considered, the consultative process undertaken, the best estimated costs, benefits and financial implications, and the degree of consensus reached (Report of the Consultative Steering Group, 1998, section 3.5:7).

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5 Accounting and democratic accountability in Northern Ireland

Noel Hyndman

The Northern Ireland Assembly was established as part of the Belfast Agreement (NI Office, 1998) reached at the multi-party negotiations on Friday 10 April 1998. Following a referendum held on 22 May 1998, which resulted in a majority voting in favour of the Agreement, the Assembly was constituted under the NI (Elections) Act 1998 and met for the first time on 29 November 1999. The Agreement, while not resolving the seemingly intractable 'constitutional question',¹ paved the way for local politicians to manage local issues through a powersharing arrangement. Given the stumbling progress towards this pact, the process of devolution commenced with a mixture of anticipation and foreboding (Carmichael and Knox, 2003).

At this time of writing (early 2008), the Northern Ireland Assembly's first period of operation has been completed, punctuated with four periods of suspension during which significant periods of direct rule from London were required. Subsequent elections to the Assembly were initially postponed (from May 2003) and then held on 26 November 2003, and resulted in the anti-agreement Democratic Unionist Party (DUP) led by Ian Paisley holding the greatest number of seats, a situation, at the time, broadly acknowledged as presenting difficulties in re-establishing a functioning Assembly (Devenport, 2003). Such concerns initially proved well founded, as between 2003 and early 2007 the Assembly was not re-established. New elections eventually took place in March 2007, with the DUP and Sinn Féin strengthening their electoral positions (DUP: 36 seats out of the 108, 30.1 per cent of the vote; Sinn Féin: 28 seats, 26.2 per cent). However, tantalising signs from the key political parties, particularly in 2006 and 2007, suggesting that, at last, progress may be possible, proved well founded. Well-orchestrated events, encouraged by the Irish and United Kingdom (UK) governments, where Sinn Féin committed themselves to supporting local policing and the operation of the courts, and the DUP relaxed their opposition to Sinn Féin's involvement in government, resulted in the reestablishment of the Executive and the Assembly, with Ian Paisley (DUP) and Martin McGuinness (Sinn Féin) being sworn in as the First Minister and Deputy First Minister respectively on the 8 May 2007.

At the same time that the devolution programme was unfolding in Northern

Ireland, Scotland and Wales, the impact of New Public Management (NPM) and the implementation of resource accounting and budgeting (RAB) was increasingly giving prominence to accounting information in the wider UK public sector, where it was argued that such rational and neutral information could help in delivering more appropriate, more accountable and better management within the public sector as well as strengthening democratic processes. However, for this to be achieved, then it is imperative that key decision makers (including politicians) be familiar with the accounting information available and make it the basis of debate, discussion and decision making. In the particular context of Northern Ireland, it was perhaps hoped that such information could help to inform political discussion and debate and act a mediating mechanism to reduce tension in the new devolved administration.

Devolution was seen as a way of achieving both political and managerial objectives, not only in Northern Ireland but also in Scotland and Wales. This chapter explores both of these themes in the context of Northern Ireland. The implications of the rationality of accounting thought and practice as a mediating mechanism in the highly-charged, conflict-ridden situation in Northern Ireland are examined. In addition, the extent to which such accounting information is understood by, and informed and shaped the actions of, politicians in the first term of the Northern Ireland devolved Assembly (1999–2003) is considered. The chapter draws on research that utilises a variety of data sources: interviews with key actors (including politicians and non-politicians who operated in and around the Assembly); non-participant observation of Assembly committee meetings; reviews of planning documents and official publications; and media reports. More detailed presentation of some of this research is reported elsewhere (Ezzamel *et al.*, 2005a and 2005b). In terms of the format of the remainder of the chapter, the following approach is taken. The next section explores the importance of context in investigating accounting practices and accounting change, and this is followed by a brief analysis of the history of Northern Ireland, a history of political and social conflict (as a basis for understanding the primacy of the political context in explaining the role of accounting in the devolved Assembly). Subsequently, the way in which both NPM themes and RAB, with their perceived rationality, have assumed an increasing importance as the UK devolution programme has been implemented is outlined. Following this, the main research findings are presented in two sections: the first dealing with the impact of the Northern Ireland context on what has happened; and the second focusing on Northern Ireland politicians' use of accounting information since devolution. Finally, key conclusions regarding accounting and democratic accountability are presented.

Importance of context

The importance of context in the investigation of accounting practices is now well established in the accounting literature (Laughlin *et al.*, 1989; Hopwood

and Miller, 1994). The seminal contribution by Burchell, Clubb, Hopwood, Hughes and Nahapiet (1980) advanced the case for contextual analyses of accounting practice, observing that, at that time, accounting research was predominantly focused on the refinement of the accounting craft, rather than the study *of* accounting as a social and organisational phenomenon. They stressed the importance of context in determining the relevance of accounting information, and whether it is used or not. In addition, while they recognised the significance of the modern state in privileging accounting information and they did point to the influence of the (p. 22) 'interplay of political processes, both within the organisation and its interface with dominant external agents', their major research agenda concerned accounting within organisations rather than in the (State) political sphere. Hopwood (1983) reaffirmed the agenda of contextual researchers in accounting, calling for (p. 302) 'a commitment to study, analyse and interpret accounting in the context in which it operates'. Again, while recognising the importance of the State on the function of accounting, Hopwood encouraged a focus on research on, and within, organisations. While these seminal papers on contextual studies did not specifically advocate the study of accounting in a political context, other researchers have undertaken research in the sphere of politics and public accountability. Nevertheless, these studies of political processes and accountability are of a distinct genre which tends to explore refinements of accounting practices, rather than fully exploring the context in which information is used.

One early study of local government accounting (Sidebotham, 1966) is sympathetic to the current contextual studies. This study noted that most elected members of local authorities were mystified by the accounting practices and reports of local government. Sidebotham described this reliance on the permanent officers of the local authority as (p. 25) 'bureaucracy with a democratic façade'. A later study by Collins, Keenan and Lapsley (1991) identified a small cadre of elected members of local authorities who were sufficiently knowledgeable on local authority finance to challenge the permanent officers of the local authority. These councillors were juxtaposed against a small group of permanent officers who were able to understand and challenge the nuances of local authority accounting practices and reports.

The work of Ter Bogt has explored the use of accounting information in a political context. Ter Bogt (2001) revealed how politicians supplement 'hard' data in the shape of official planning and control documents with 'softer' data on the attitudes and behaviour of management and on their processes of working. Also, Ter Bogt (2003), using a transaction cost economic (TCE) approach, has reported on a study of autonomy in Dutch government. Although such an approach can be seen as 'rational' rather than 'contextual', it does point to the need to study political context (social, institutional, legal and political settings were all identified as major factors in the governance of local authorities). More recently, Ter Bogt (2004) has identified political

needs for information in local authorities to be about the search for accurate measures of performance information.

With respect solely to central government, there have been relatively few studies of politicians from an accounting perspective. An early study of central government accounting by Likierman and Vass (1984) in the UK demonstrated that few Members of Parliament at Westminster could make sense of the accounting information which was made available to them. Specifically with respect to the use of budgets in central government political processes, and focusing mainly on the USA, Wildavsky has written at length on, for example: political cultures and balanced budgets (1985); the need to ensure budgetary co-ordination and control in a decentralised system (Wildavsky and Jones 1994); and the importance of the budgetary norms of annuality, comprehensiveness and balance (Wildavsky 1993). However, most of the above studies, of both central and local government, are of accounting in a political context which is *stable*. The material in this chapter reports on a study of how accounting is implicated in the establishment of a new seat of government in a quite different, distinctive setting which has experienced a protracted *conflict-ridden* political context – Northern Ireland.

A history of Northern Ireland; a history of conflict

To understand the context of Northern Ireland a brief appreciation of the history of the whole of the island of Ireland is helpful. From about the fourth century BC the Celts settled in Ireland. Subsequently, Christianity became the dominant religion following Patrick's travels and missions in the fifth century AD. The island was invaded and ruled by the Vikings some three hundred years later, with the English penetration commencing in the twelfth century (this being somewhat completed by 1541 when the island became the Kingdom of Ireland in personal union with England). From 1801 Ireland was formally constituted as part of the UK of Great Britain and Ireland. Severe economic depression and mass famine resulted from the potato famine of the mid-1840s, leading to mass emigration. From about 1858 significant independence movements became active, with the Home Rule Movement, led by Charles Stewart Parnell, advocating independence. In the late 1800s this movement was able to achieve an element of home rule.

At the beginning of the twentieth century the more extreme Sinn Féin (ourselves alone) was founded. When home rule was suspended following the outbreak of the First World War, radicals led the unsuccessful Easter Rising of 1916, which resulted in the execution of the rebellion's leaders and, consequently, massive support for Sinn Féin in the 1918 general election (which subsequently led to the Sinn Féin members constituting themselves as an Irish parliament). Ensuing tensions led to the Anglo-Irish War of 1919–1921, which was concluded with the Anglo-Irish treaty of 1921. This recognised the partition of the island into the Irish Free State (twenty-six counties and predominantly Catholic) and Northern Ireland (six counties

and predominantly Protestant). The Irish Free State was constituted as part of the British Commonwealth and important ties to Britain remained. However, a significant minority in Ireland repudiated the treaty settlement because of the continuance of subordinate ties to the British monarch and the partition of the island, and this led to a civil war in the Free State (1922–1923). A new Irish constitution was enacted in 1937, making Ireland a *de facto* republic, and, soon afterwards, the last British military bases in the Free State were withdrawn and the ports were returned to total Irish control. In the Second World War Ireland remained neutral and, in 1948, the government formally declared Ireland a republic.

Northern Ireland is part of the UK, covers about one sixth of the total area of the island of Ireland, and has a population of approximately 1.7 million (about 30 per cent of the total population). It was established as consequence of the Anglo-Irish War of 1919–1921, and is an administrative division of the UK, being defined by the Government of Ireland Act, 1920. Northern Ireland has been for many years the site of a violent and bitter ethno-political conflict. While oversimplifying the conflict, the main divisions are between those claiming to represent republicans/nationalists (who are predominantly Catholic and want it to be unified with the Republic of Ireland) and those claiming to represent unionists/loyalists (who are predominantly Protestant and want it to remain part of the UK), with unionists being in the majority (53 per cent population Protestant, 44 per cent Catholic, 3 per cent other).

The conflict in Northern Ireland of the present day has its antecedents in the political history of Ireland. Montville (1993) has outlined the sources of religious confrontation of the twentieth century in the events of previous centuries: the oppression of the Catholic population of Ireland by a succession of Protestant royal leaders, from the landing of Henry II in 1171 through the activities of Elizabeth I and James I (1588–1625), followed by the activities of the Lord Protector of England, Oliver Cromwell (1653–1658). The Northern Ireland situation has been described as a history of violent, traumatic aggression and loss, a conviction that the aggression experienced is unjustified on any terms with the fear that the aggression may recur again in the future (Montville, 1993). All of this depicts a situation of confrontations laden with actual, or potential for, violence.

The political situation in Northern Ireland has been characterised as one of ‘political realism’ or ‘realpolitik’ by Sandole (1986, 1993). The ‘realpolitik’ perspective is one in which the world is viewed as a battleground (actual or potential) in which there are no mechanisms of conflict resolution. Deutsch (1973) sees ‘realpolitik’ as a context which encourages ‘competitive’ processes of conflict resolution: adversarial, combative, zero-sum, confrontational, ‘win–lose’ approaches. In discussing the difficulties of overcoming conflict in Northern Ireland, Sandole makes the following observation: ‘I am reminded of a local politician from Northern Ireland who asked me, “How can you expect a man whose relatives have been blown to bits, to accept apologies from those who have committed the terrible deeds?”’ Sandole (1993, p. 277).

This comment underlines the fact that the conflict situation in Northern Ireland is a result of significant religious differences. Such conflicts have been regarded as the most resistant to diplomatic or political mediation, because the losses (in terms of lives, territory, safety and justice) are so painful (Montville, 1993). In the face of longstanding cultural differences in conflict situations, Avruch and Black (1993: 143) call for 'due caution and hesitancy' in conflict resolution. All of these negative influences in the 'realpolitik' situation of Northern Ireland are unlikely to lead to conflict resolution, as political processes are dominated by destructive outcomes (Sandole, 1993).

NPM and RAB

Notwithstanding the above contextual material that is unique to Northern Ireland, generally the reform of governmental machinery with the introduction of devolution in the UK has been accompanied by the UK central government's espousal of the rationality of NPM in which accounting plays a central part (Likierman, 1997). The aim of NPM is not just improved management processes, but enhanced transparency and accountability (HM Treasury, 1992; Minogue, 2000). As well as considering the context of devolution in Northern Ireland, this chapter also spotlights the impact of both NPM and RAB, and their focus on rational decision making, in relation to the first term of the new Northern Ireland Assembly. NPM and RAB have been mobilised by the current government in its modernising strategy. In the Comprehensive Spending Review (HM Treasury, 1998) these ideas have taken hold and have cascaded down to the budget setting process in each of the devolved Parliaments/Assemblies in the UK.

NPM reforms, which were particularly prevalent during the 1980s and 1990s, have had major impacts in many western governments (Guthrie *et al.*, 1999). Within the UK, this focus on new management practices is seen in a range of changes in health, education, central government and local government. For example, the language of NPM provides a major thrust in the whole Next Steps Initiative programme (HM Treasury, 1992; HM Government, 2000), and its rhetoric is peppered throughout the *Modernising Government* (HM Government, 1999) White Paper. NPM reforms typically have evolved around six dimensions: privatisation, marketisation, decentralisation, output orientation, quality systems and intensity of implementation.

It is interesting to note that arguments in favour of decentralisation (defined as a transfer of formal authority from a higher tier in a hierarchical organisation to a lower one), a central idea of the NPM agenda, resound with some of the main themes from the devolution argument. While it is clearly recognised that devolution is distinct from decentralisation in a number of ways (perhaps most notably in that with devolution political powers are transferred for reasons much wider than improved managerial effectiveness), similar ideas often surface in discussions of both decentralisation and devolution. For example, better local decision making, freeing up central

management (or central government) to focus on wider strategic issues and a more motivated and responsible local management (or local political) team. However, the relationship between devolution and decentralisation (an aspect of NPM) has been viewed by some as possibly more deliberate, with devolution being seen as a way in which important aspects of the NPM thrust can be intensified (although in these cases it is not argued that the devolution agenda is primarily driven by attempts to implement NPM ideas). For example, Midwinter (2003: 2), in discussing the link between decentralisation and devolution, argued that the model of devolution being operated in the UK has some similarities to the NPM model 'which promised greater efficiency through budgetary decentralisation, and competition and choice in a combination of management accounting theory and public choice economics'.

In much of the extant traditional accounting literature, and in many NPM publications, accounting is typically conceptualised as a tool intended to furnish rational decision makers with appropriate information. Accounting is treated as a neutral technology, and hence in the hands of rational decision makers it is deployed to generate and draw attention to information that guides decision makers in making informed decisions. Such a traditional view of accounting is premised on a more general view of the organisation, as one with well-defined, clearly-ordered goals and objectives that are relentlessly pursued by senior managers or decision makers. It is assumed that the preferences of decision makers map (or can be made to map) perfectly onto organisational preferences, and that these preferences provide the basis upon which accounting systems are designed and developed. Accounting techniques have an aura of logic, objectivity and accuracy, and this aura holds particularly strongly among those who are not technically equipped to deconstruct accounting numbers (Knights and Collinson, 1987; Ezzamel, 1994).

In tandem with NPM reforms, a number of governments have moved from cash to accrual accounting principles (Sutcliffe, 2003). Indeed, it is argued that without such movement some of the NPM changes would be weakened (Chan, 2003; Likierman, 2003). In the UK this has been implemented under the title RAB. Resource accounting, which extends beyond the cash-based accounting used previously by applying accrual principles to public sector accounting, also seeks to integrate objectives and targets into the accounting system (implemented in full 2001/2002). In addition, on the management accounting side, a subsequent move to resource budgeting in order to make the management accounts align with the external accounts was made (implemented in full 2003/2004). These changes, although not directly related to devolution, were being phased in at the same time as UK devolution was being established. The origins of RAB and the timetable for its implementation in the UK are presented in Table 5.1, where it is noted that the number of dry-run years in Northern Ireland with respect to resource accounting was reduced to one (rather than the three as used elsewhere in

Table 5.1 Origins and timeline for the introduction of RAB in the UK

Year	Event
1993	The adoption of accrual accounting by UK central government mooted by the then Chancellor of the Exchequer, Kenneth Clarke, of the Conservative government led by John Major.
1994	Green (discussion) paper <i>Better Accounting for Taxpayer's Money: Resource Accounting and Budgeting in Government</i> , A Consultation Paper published by HM Treasury.
1995	White (policy) paper <i>Better Accounting for Taxpayer's Money</i> published by HM Treasury.
1998/99, 1999/00 and 2000/01	Resource accounts: dry-run and shadow years.*
1999	Resource budgets: dry-run exercise undertaken.
2001/02	Resource accounts 'live'.
2001/02 and 2002/03	Resource budget transitional years: big non-cash items not included in the departmental expenditure limits (DEL).
2003/04	Full resource budgets 'live' with cash and non-cash items included in the DEL.

Source: HM Treasury, 1994 and 1995; Department of Finance and Personnel, 2002.

Note: *This was restricted to one year (2000/01) in Northern Ireland due to departmental restructuring related to devolution.

the UK) due to significant departmental restructuring related to the Northern Ireland devolution process.

The devolution process in Northern Ireland can be seen as providing a contribution to the overall peace process (and other wider political objectives) as well as a means of supporting managerial objectives relating to the improvement of decision making in the public administration of Northern Ireland. In the context of Northern Ireland, the rationality of modern accounting practice in the public sector may have the potential to improve decision making in the public sector, including those decisions taken by politicians. However, it is recognised that the wholesale application of the principles of NPM (including RAB) as a mechanism for change may have limitations because the complexity of the public sector may place constraints on the introduction of its ideas (Pollitt and Bouckaert, 2000).

The position of governmental units, including devolved institutions, may reflect pressures to be seen as 'modern' by appearing to adopt new accounting practices that are perceived as serving a legitimating function. In some studies of reforms in the public sector, a number of researchers, influenced by institutional theory, posit that the desire to modernise is often characterised by particular ideas of what constitutes improvement and by particular patterns of behaviour (Arnaboldi and Lapsley, 2004; Khadaroo, 2005). As a

consequence of this, public sector organisations may mimic the private sector or the practices of other public sector organisations, which are perceived to be efficient, in order to appear modern or legitimate (something that may be promoted by central government policies). This is described as isomorphism by institutional theorists (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott and Meyer, 1994). DiMaggio and Powell suggest that the more highly organised policy making becomes, the more individual organisations focus on responding to the official categories and procedures specified by the larger environment. Therefore in order to be perceived as legitimate, organisations adapt their formal structures to conform to institutional norms (described as coercive isomorphism by DiMaggio and Powell).

The impact of the Northern Ireland context

Political context

Given the nature of the Northern Ireland conflict, with its complex, deep-seated antecedents that date back many hundreds of years, and the chronic political and social instability that preceded the establishment of the Assembly, it is perhaps unsurprising that progress in cementing devolution has been somewhat problematical. The stuttering operation of the Assembly in its first term (1999–2003), with significant periods of suspension, and the lack of its reestablishment between 2003 and early 2007 following elections held in late 2003, highlights the mistrust between unionists/loyalists and nationalist/republicans. At the time of writing, recent elections in March 2007 resulted in the DUP and Sinn Féin being the two largest parties (with increased shares of the vote). Following movements by Sinn Féin, which changed party policy at the beginning of 2007 to the support of the police service and the court system (which it had traditionally opposed), and by the DUP, which signalled that it would be prepared to share power with republicans (and, in particular, Sinn Féin), a functioning Executive and Assembly were reestablished in May 2007 with Ian Paisley (DUP) as First Minister and Martin McGuinness (Sinn Féin) as Deputy First Minister. It is widely hoped that this will herald a more sustained political involvement of the main parties in devolution.

As predicted by the ‘realpolitik’ perspective (where ruthlessly self-interested and opportunist, rather than moralistic, approaches to politics are utilised), conflict remains in the new devolved Assembly (or in attempts to revive the Assembly). This is evidenced by the continuing underlying, politically-related violence in Northern Ireland, and the threats (or actual use) of withdrawals from the process by major political parties. This issue – the influence of the major political parties on the Northern Ireland scene – is also invoked as a rationale for the undermining of the Northern Ireland Assembly as an entity. Indeed, the very existence of the Northern Ireland Assembly is seen as something of a paradox by key actors in and around the Assembly. However, within this continuing perspective of political tensions and conflict there are

glimpses of what might be (as is the position subsequent to the 2007 elections). An element of optimism could be gleaned from the interviews with politicians, where there appeared to be an enthusiasm to see the Assembly work. Indeed, given the public persona of the Assembly, replete with high-profile and vitriolic engagements of political parties, it was perhaps surprising that a keenly held desire to work together was apparent (something commented upon by non-politicians working in and around the Assembly). Moreover, a number of politicians spoke of good working relationships with ministers from very different political parties. For example, one politician (from Sinn Féin), a committee chairman, commented on the relationship built up with Mark Durkan from the SDLP (when Minister of Finance and Personnel). In referring to his committee's difficulty in acquiring particular information relating to finance and accounting, it was claimed that Mark Durkan had been particularly helpful and that a 'unique relationship' had been established.

Infancy and high politics

A recurring theme that emerged from the interviews was that the whole process and structure was in its infancy, and a learning curve was being experienced. A widely held view is that some progress is being made, but it would take the passage of a further period of time before the bodies would, or could, reach their true potential. It was suggested that the understanding of RAB by key actors in the Northern Ireland Assembly was, at present, limited but that, over time, it could improve. A fairly general view held was that education was necessary to improve the situation. In other political settings it has been suggested that it can take significant time to change the habits of politicians towards using accounting information, as they often eschew quantitative and planning information because they prefer to act flexibly (Ter Bogt, 2001). Such ambivalence, coupled with continuing interruptions to the work of the Assembly, as issues of 'high politics' impact, compound the problem of learning by creating a context of upheaval. The uncertainty caused by suspensions, with the Assembly not functioning between October 2002 and early 2007, dampened enthusiasm for learning about the nature and potential benefits of RAB.

Northern Ireland politicians' use of accounting information

Accountability issues

A number of politicians, particularly those who were not ministers or who were not actively involved in departmental committees concentrating on accounting and accountability issues, tended to have a fairly compartmentalised view of what accountability meant, it being most frequently equated with scrutiny and allied processes (for convenience, this group of politicians is

referred to as 'outsider politicians'). With respect to politicians at ministerial level and those involved in department committees focusing on accounting and accountability issues (plus a few politicians who, because of their expertise outside of the Assembly, had particular interests in accounting and accountability issues), there appeared to be a wider view of accountability (for convenience, this group of politicians is referred to as 'insider politicians'). In particular, a number within this group expressed the view that good managerial information systems were necessary for effective accountability. These views tended to echo important NPM themes. Non-politicians interviewed generally viewed accountability from a more multi-faceted perspective than 'outsider politicians', citing, amongst other things, that it existed on a number of levels. One non-politician perceived his organisation's role as having shaped and influenced accountability since devolution, and expressed a desire that the way in which devolution operated should largely mimic processes that were operating in Westminster.

Provision of information (including accounting and RAB information)

A key theme among the politicians was that there was often too much irrelevant information and it was impossible to deal with all that is available. There were clear opinions expressed that there was the danger of becoming overwhelmed with information. It was perceived that providers of information tend to use a scattergun approach, disseminating everything to everyone regardless of individual interests. A difference between politician interviewees and non-politicians on this issue focused on the reason why so much information was being produced; politicians tending to see the responsibility lying at the door of those distributing the information, while non-politicians viewed politicians' compulsion with having everything that is available (regardless of their ability to use the information) as problematical. These differences possibly suggest that the process of tailoring information to an individual's need may be extremely difficult, as the information that is perceived as having little value by one individual may be perceived as vital by another. In order to cope with the amount of information available, some participants expressed the view that a discernment relating to the relevance of the information to their roles was crucial. Effective mechanisms that ensured filtering and focusing-in on important issues were identified as being needed. Interviewees were keen to stress, however, that the subject of information provision was one of learning and education (although, conceivably paradoxically, it was clear from the interviews that few politicians attended seminars organised to improve their understanding even though a number expressed the need for more education).

Interestingly, when asked about what would they classify as 'accounting information', there were noteworthy differences between the opinions of 'outsider politicians' and 'insider politicians', with the former stressing

accounting predominantly in terms of financial numbers, whereas the latter tended to have wider notions of accounting information, encompassing broader performance-related issues. Perhaps this is unsurprising given that many of the 'insider politicians' may have been exposed to NPM ideas to a much greater extent than 'outsider politicians'. It was also notable that a significant number of the 'outsider politicians' knew little or nothing about RAB, with several admitting that they had not even heard of RAB. In contrast, 'insider politicians' were generally fairly conversant with the intricacies of RAB and were able to identify a range of potential drawbacks and benefits.

Budget issues

The setting of the budget is one of the most sensitive, visible and potentially emotive aspects of any democratic government's decision-making responsibilities. It involves choices regarding the funding of competing claims. Given this, the prior expectation was that at the budget stage there would possibly be the greatest opportunity for debate in terms of the language of accounting; where finance, targets and priorities become the substance of the argument. A main theme of a number of politicians interviewed was that difficulties had arisen regarding scrutiny because of overly technical presentations. This was a particular problem with respect to 'outsider politicians'. For example, one admitted to having a problem understanding the language of accounting (possibly related to a lack of understanding of RAB issues), and questioned whether or not the Executive desired to be as open as possible with Members of the Legislative Assembly (MLAs). Given the limited knowledge of accounting and, in particular, RAB by a number of politicians, this suggests that budget information is provided that is not understood by many politicians and therefore scrutiny (and accountability) is diluted. Furthermore, within the budgeting process, many politicians were often perceived as being more concerned with how much was being spent rather than on what it might achieve. Ministers expressed a view (which was concurred with by some non-politicians) that bids by non-ministerial politicians contained very little consideration of planning and performance issues (a far cry from many of the themes embedded in NPM that emphasise rational choices and concepts of efficiency and effectiveness).

The evolution of performance information

Performance information, as part of RAB and in terms of a wider agenda of improving management and accountability, has had an increasingly significant profile in the UK public sector for many years (HM Government, 1982; HM Treasury, 2001). Such information is viewed as an integral part of an effective accounting and management system in a public sector organisation. From interviews with politicians it was clear that there was disagreement

among politicians regarding the levels of performance information that are produced, although agreement as to the importance of such information. The vast majority of politicians were of the opinion that there was limited systematic dissemination of what was available. In particular, most politicians (other than those at ministerial level) had limited awareness of the availability of performance information. Overall the interviews indicated that performance information is far from pervasive in the lives of some politicians, certainly not in the manner one might expect with a NPM focus.

Conclusions

The main objective of the research reported in this chapter was to explore the emergence, development and uses of what purport to be rational accounting practices in the Northern Ireland Assembly (an Assembly established and structured to facilitate a community emerging from deep-seated and long-standing conflict). There is evidence among the main actors of a desire to legitimise the political changes that have taken place since 1999. However, the uncertainty caused by numerous suspensions, and delays in reestablishing the institutions following the November 2003 elections, has undermined confidence in the potential role of accounting as a mediating device. These adverse circumstances in the wider political environment reinforce the need to understand the context in which accounting purports to operate in order to evaluate its significance. The constitutional and political upheavals in Northern Ireland may have reduced the 'financial and accounting power' of most of the MLAs relative to the civil service, possibly to the detriment for democratic accountability and contrary to the intent behind both devolution and RAB. However, it is noteworthy that the reform of accounting processes has maintained its momentum throughout this period, regardless of the fractious political context in which it is intended to function. The new elections in March 2007, resulting in a functioning Executive and Assembly from May 2007, are perhaps indicative of the main political parties being at last willing to engage again in meaningful political dialogue within a functioning Assembly, and may again revive the use of accounting practices by politicians as a support for democratic accountability.

The experiences of politicians in the Assembly did not mirror NPM as presented in official government pronouncements. Evidence was found of, for example: traditional political processes where bid chasing was prevalent; little attention to planning; and a lack of focus on performance. Moreover, there was limited evidence that accounting information has led to more rational decision making in the first term of the Northern Ireland Assembly. Many political decision makers are unclear as to the meaning of certain significant accounting information. In general, there is information overload, with politicians struggling to obtain relevant information. There is confusion between the suppliers of information and the users of information. Given this scenario, even if it were accepted that accounting information could

provide the foundation for rationality, the basis for rational decision making is, at present, missing from the Northern Ireland Assembly.

More particularly, whether accounting information, as encapsulated within RAB, will ever be appropriate to support the decisions that politicians have to take is unproven. For example, although RAB is often expressed as private sector practice applied to the public sector, in reality it is more than this. Arguably it is much more complicated (with, for example, additional intricate schedules, and complex methods for charging for fixed assets and working capital) and more difficult to understand than private sector accounting. Given this, it is perhaps strange that so few comments from the interviewees regarding RAB were negative (an examination of the arguments for the use of RAB, and a detailed review of its impact on the Northern Ireland departments, is provided by Connolly and Hyndman, 2006). Notwithstanding the fact that many 'outsider politicians' had either not heard of RAB or admitted limited knowledge, 'insider politicians' expressed few disapproving opinions. Perhaps this is because of a lack of detailed familiarity of the impact of systems in practice (with resource accounting only having its first 'live year' in Northern Ireland in 2001/2002). Or alternatively, in a way that resonates with ideas from institutional theory, perhaps RAB is viewed as a way of appearing modern and/or legitimising the political changes that have occurred. As Parry (2005) has argued, new governments (p. 58) 'self-evidently want to be modern, best-practice governments, not a tired echo of what went before'. Certainly there was evidence of this in the interviews, with a number of interviewees stating a desire to follow both 'best practice' and what was happening in Westminster. In addition, the way in which RAB, as developed by HM Treasury, was accepted in an unchallenged fashion in Northern Ireland (see NI Department of Finance and Personnel, 2003) suggests a desire to conform. Given the political and social instability in Northern Ireland prior to 1999, and the desire, even among some anti-Agreement parties, to have devolution succeed (albeit anti-Agreement parties have differing views as to how it should operate), it is perhaps unsurprising that few dissenting voices were heard.

It is clear that a significant proportion of politicians inadequately understand issues surrounding the language of accounting, issues that have come to the fore in a public sector environment that embraces NPM and RAB ideas. This creates a problem when debate is conducted in the language of accounting. Research from Sweden suggests that central government politicians do not want accounts that use accruals-based information, such as is used in RAB, and prefer less precise, more direct cash flow information (Bowerman, 1998). Similarly, in New Zealand it has been questioned whether parliament has the necessary skills, time, resources and motivation to make use of the extra information (Pallot, 1998). Comparable issues arise from the research alluded to in this chapter. The interviews revealed that senior civil servants, some of the external experts and certain politicians (particularly those at ministerial level) had acquired a fairly detailed knowledge on such

issues as RAB and performance information. Nevertheless, many politicians are precluded from entering into meaningful debate on a range of resource allocation issues because of a lack of understanding of what is perceived as a technical accounting discourse that is becoming more pervasive. For example, one participant, when discussing the presentation of the budget, expressed this most vividly by suggesting that many MLAs do not understand the technical language, are reluctant to admit to such lack of knowledge and are therefore inhibited in challenging the budget.

A distinction can be made between two types of politician, 'insider politicians' and 'outsider politicians'. 'Insider politicians', conceivably because of the role that they perform within the Assembly which perhaps forces them to have an extensive and intensive learning of the language of accounting, displayed much greater comfort than 'outsider politicians' with an accounting dialogue. With 'outsider politicians' the pressures to learn are often considerably less and, as a consequence, their capacity to engage meaningfully in debate that uses accounting terminology and concepts is limited. Such a scenario may undermine effective scrutiny and weakens democratic accountability by contributing to what is seen by some as an unwelcome drift to less public accountability in a range of matters. Stewart (1984 and 1993) promulgates the need for a 'ladder' of public accountability containing a number of 'rungs' (for example, accountability for probity and legality, programme accountability and policy accountability) in order to safeguard accountability and particularly highlights the importance of accountability being discharged by elected representatives to the public. Obviously, with respect to this, considerable difficulties arise when such representatives are unable to understand the language of debate on key issues.

A similar argument has been promulgated by Guthrie, Olson and Humphrey (1999), who argue that if accounting is to play a role in strengthening democratic processes, then it is vital that actors (particularly politicians) understand its meaning. In a comparable tone, yet writing almost half a century ago, Sidebotham (1966), focusing on local authority accounting, highlighted the danger that, given a lack of knowledge of accounting by politicians, there is the possibility that bureaucrats will assume power, and thereby effectively disenfranchise elected representatives. More recently, and in a similar vein, Bowerman (1998), in providing a comparative international analysis of reforms in the public sector, stressed the possible threat of democracy being undermined by too much emphasis on techniques of managerial control and performance measurement, and a lack of understanding of such technologies by politicians (or undue importance being ceded to such technologies by politicians). She suggested that this has the potential (p. 412) 'to further erode the role of political debate and judgement'. While the research presented in this chapter provides evidence that some politicians are equipped to engage in a debate conducted in the language of accounting, many are not. Given that the establishment of a devolved Assembly was founded on an aspiration of providing consensus politics in Northern Ireland,

the non-engagement of 'outsider politicians' in debates that are conducted in the language of accounting is perhaps of great concern. This research provides evidence that the availability of accounting information to politicians is partial and, perhaps more importantly, its understandability by politicians is limited. Given this, the potential for accounting information to contribute to the establishment of consensus politics, and improved democratic accountability, is weakened.

To an extent, both the development of appropriate accounting information systems to support politicians and the level of understanding of accounting information by politicians, is a function of the maturity of the Assembly and its associated structures and processes. Indeed, the research finds evidence during the first term of the Northern Ireland Assembly, at times when the Assembly was operating, of ongoing modifications being made to accounting systems to facilitate the needs of politicians. A constantly emerging theme was that the Assembly was in its early stages of development and the process (including the provision, understanding and use of accounting information) was evolving through time. This thrust was evident in responses to a range of questions with broadly similar views being expressed by 'insider politicians', 'outsider politicians' and non-politicians. However, whilst some progress had been made, it was perceived that it would take the passage of a further period of time before the bodies would, or could, reach their true potential. This view was expressed in relation to, for example, understanding RAB and the engagement of politicians with budget issues. A fairly general theme from the participants in the study was that education (if, indeed, politicians could be activated to avail themselves of such a facility) was necessary to improve the situation. Undeniably, the uncertainty caused by suspensions appeared to reduce the interest of politicians in learning.

One of the most arresting impressions gained by the authors in engaging with Northern Ireland politicians was that there was an eagerness on the part of the vast majority to see the Assembly work. Given the longstanding political and social instability that exists in Northern Ireland, the fact that most MLAs appear committed to the idea of a devolved Assembly suggests that there is perhaps hope for the future (despite the faltering attempts to cement the Assembly since 1999). Conceivably, with sufficient goodwill and compromise on all parts (things that are not easy to establish in Northern Ireland), together with a period of stability to allow politicians to develop the necessary skills, the language of accounting, accountability and performance may take a more prominent role in debate and discussion in Northern Ireland political quarters. The hope is that such language (with at least a general perception of being rational and neutral) will provide support for both politicians and other stakeholders in making public administration in Northern Ireland more accountable, more conciliatory and more appropriate. Perhaps the Assembly elections of March 2007, and the resultant reestablishment of a functioning Executive and Assembly in May 2007, may provide a significant milestone in the journey towards such an objective.

Note

- 1 This is a term used to reflect differences between nationalists/republicans (who favour constitutional arrangements whereby Northern Ireland is absorbed within an expanded Ireland) and unionists/loyalists (who favour retention of Northern Ireland as part of the UK).

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6 Accounting and democratic accountability in Scotland

Irvine Lapsley and Arthur Midwinter

Introduction

The establishment of the Scottish Parliament in 1999 can be seen as the outcome of a number of influences on Scottish life. The nationalist party in Scotland (Scottish Nationalist Party) had been active throughout the latter part of the twentieth century, deploying the argument that Scotland's natural resources, notably revenues from oil reserves, were not being used to benefit the population of Scotland. In the same period the dominant political party of the Governments elected under the 'first past the post' system elections were Conservative. The strong majorities held by these Conservative governments at Westminster contrasted with the situation in Scotland which was dominated by the election of Labour Members of Parliament at Westminster. This was seen by many as a 'democratic deficit'. The Liberal Democrats had a longstanding position of seeking devolved powers to Scotland. While the Liberal Democrats may be seen as having less influence or voice, when added to the mix of political agendas in Scotland, pressures for some form of autonomy for Scotland were to the fore. These pressures of an electorate in Scotland whose wishes were not reflected in political processes became an imperative of the incoming Labour administration of 1997. However, these expressions of discontent by the Scottish electorate were not just a rejection of a series of policies with which it had little sympathy. These were also manifestations of the desire for different parliamentary arrangements from those at Westminster.

The deliberations on the establishment of the new Scottish Parliament have resulted in divergences from practices at Westminster. In the first place a system of proportional representation has been adopted for the Scottish Parliament. The 129 Members of the Scottish Parliament may be elected as 'first past the post' winners of elections in specific constituencies or as 'list' Members in which a system of proportional representation seeks to compensate parties which secure significant votes in constituencies, but not sufficient to win on a 'first past the post' basis. One distinct outcome of this process has been the inability of elections to deliver a single party with sufficient Members of the Scottish Parliament to have a single party Executive or Government.

In the elections of 1999 and 2003 the Labour Party and the Liberal Democratic Party combined to offer a coalition government, which was led by Labour. In the 2007 election there was no outright winner. The largest party was the Scottish Nationalist Party with 49 Members of the Scottish Parliament – one more than Labour. The nationalists attempted to form a coalition government but were unable to get a partner from the unionist parties, although the two Green MSPs formed an agreement with the minority government. The impact of this particular outcome on democratic accountability after the relative stability of the two preceding Scottish Executives is considered below.

While the political process and its outcomes constitute one of the main distinctions from the Westminster Parliament, there are others. This includes the system by which the Scottish Parliament accounts for monies transferred to it from Westminster. The intention of this financial regime was to be as inclusive as possible and to give elected politicians a say in the development of expenditure plans. However the specific proposals developed for the Scottish Parliament may have been over-elaborate. This is discussed further below. Also at the Scottish Parliament, the system of scrutiny by Parliamentary committees was intended to be more inclusive and to give the Parliament an opportunity to challenge the development of policy by the Scottish Executive. This particular facet of the way in which the Executive was designed to be held to account by the elected members of the Scottish Parliament is examined below.

The remainder of this chapter is organised as follows; first, the design of the structure of democratic accountability for funds is examined; second, the budgetary framework for the Scottish Parliament is discussed; third, the process of budget setting and democratic accountability is explored; fourth, the important dimension of setting priorities in resource allocation in the context of political coalitions and minorities is considered. Finally, we conclude with thoughts on whether devolution as means of democratic accountability has benefited from the accounting information made available to committees and to the Scottish Parliament.

As noted above, Scotland voted for a change of government in 2007. As the budget process was developed between the former Executive and the Parliament from 1999 to 2007, most of our analysis focuses on developments in that period. We bring matters up to date by providing some preliminary comments on the budget approach adopted by the minority SNP administration after the 2007 May election.

Devolution and democratic accountability

Devolution was presented as a process for strengthening parliamentary control and accountability. Significant change was advocated in the budgetary context through a Financial Issues Advisory Group (FIAG). FIAG was composed of leading figures from the Scottish public sector and business

networks with experience of financial management, as one of several working groups established by the Scottish Secretary under the umbrella of a Consultative Steering Group. It reported that there were major shortcomings in the budgetary procedures at Westminster:

- there is a very limited time available for discussion of budget proposals on the floor of the House;
- the motions available do not allow the House of Commons to influence the budget proposals;
- the range of documents in which financial information is presented and the way in which such documents are considered by Parliament is less than satisfactory; and
- many MPs lack the time and the technical expertise required to understand the budget documents.

(Scottish Office, 1998: 28)

FIAG's overall conclusion was that the Westminster system did not promote constructive discussion of budgetary and expenditure priorities between the Executive and Parliament, with the result that Parliament had no meaningful input to the process, and expenditure approval is made *ex post facto*.

FIAG's proposals aimed to produce a process consistent with the aspirations for a less partisan and more transparent and inclusive parliamentary system in Scotland, and for a more meaningful role for Parliament in the scrutiny and approval of spending decisions than at Westminster. It envisaged a major involvement in the budget for parliamentary committees, with subject committees making recommendations on spending priorities for their areas, and the Finance Committee responsible for addressing overall priorities and for the presentation of budgets for consideration by the whole Parliament. The three-stage budget process recommended by FIAG was introduced with Stage 1 focusing on strategic priorities, Stage 2 considering the Draft Budget, and Stage 3 approving expenditure plans as set out in the budget documents. The overriding aim of the FIAG report was to promote a budgetary system whereby 'the Scottish Parliament's finances are managed in a way that is open, accessible and accountable to the people of Scotland' (Scottish Office, 1998: 3).

The Scottish approach is a variant of the Westminster model in that powers are vested in the Executive under parliamentary scrutiny, but one in which the Executive consults with and may receive recommendations from Parliament, and adapt its proposals if necessary in the light of them. Moreover, the Parliament can propose an alternative budget if it is not satisfied the Executive has taken adequate heed of its recommendations.

The budgetary process therefore was designed to enhance the scrutiny role played by the Parliament, with extensive consideration of expenditure strategy and priorities, detailed budget proposals, and the Budget Bill. Ministers, interest groups and experts give evidence to the Parliament regarding the

plans during the budgetary process, and the Finance Committee issues two reports, on Stages 1 and 2 which are debated in Parliament, and then the Executive formalises its plans in the Budget Bill.

The budgetary framework

The financial arrangements for devolution in the main are a continuation of the block and formula system which pertained under its predecessor, the Scottish Office. Under devolution, responsibility for public expenditure allocation across the UK remains with HM Treasury, so the Scottish Assigned Budget is determined under the UK framework of public expenditure control. Within the Assigned Budget, the Treasury distinguishes between Departmental Expenditure Limits (DELs) – which are set for three years – and Annually Managed Expenditure (AME) which is determined annually. DELs however, are reviewed biannually through the Comprehensive Spending Review at the UK level, which determines the Scottish DEL under the Barnett formula (Midwinter, 2004).

Within the Scottish Budget, the DEL is the main element, and this can be allocated according to the Executive's priorities, as can those elements of AME which are locally determined, such as the non-domestic rate income and Scottish variable rate of income tax. The DEL is determined through a block and formula approach. The block refers to the previous year's budget allocation or baseline whilst the formula element (or Barnett) applies to planned changes in expenditure. Its operation is simple and has been summarised by the Treasury as providing the devolved administrations with a population-based share of comparable increases in UK government departments spending on comparable programmes. Within these totals however, the devolved administration has the same right of access to the Treasury's Reserve for in-year spending pressures as Whitehall departments, and can carry forward their DEL underspends from one year to another under End Year Flexibility arrangements (HM Treasury, 2002). In addition, the Parliament sets and controls the income from non-domestic rates which is currently around £1.6 billion. We should note, therefore, that the financial arrangements largely reflect the system developed under administrative devolution from 1978 onwards, with the addition of the power to the Scottish Executive to vary income tax rates by three pence in the pound – a power so far unused. Devolved administrations, apart from the block nature of their allocations, are subject to the same framework of controls as Whitehall departments, in effect 'embedded' in the Treasury public expenditure regime (Heald and McLeod, 2005).

When the Scottish Parliament was established in 1999, it inherited a modestly growing budget, following two years in which the Conservative spending plans of 1997 had been maintained and only supplemented by minor increases through funding from the windfall tax. However, over the period of the first Parliament, the Scottish Budget grew from £16.3 billion to

£22.1 billion (at 1999–2000 prices) (Scottish Executive 1999 and 2002a). In addition, it made use of its control over non-domestic rates to set a higher rate poundage for Scotland compared with England, raising £141.7 million extra per annum, less than the £270 million which could be raised by a penny on income tax, but a significant sum for public expenditure. It must be clear, therefore, that the Scottish Budget is largely funded by a block grant from Westminster, which is determined mainly by using existing funding as a baseline rather than a needs formula, and the budget process largely focuses on spending plans rather than revenue raising (Midwinter, 2002).

In the budgetary context, the growth in the Scottish Budget has been significant in real terms, at around 5.6 per cent per annum since 2000. The post-devolution context of budgetary growth is a new one for most politicians and programme managers in Scotland. In the Scottish Budget around 20 per cent is *fixed*, either through Treasury ring-fencing, capital commitments or contracting. Further, around 55 per cent of the total budget is on staff costs, which constrains the scope for redistribution between programmes. Savings in the UK budgets tended to be concentrated mainly on the programmes with a high component of capital spending, or transfers and subsidies. This pattern has persisted since the 1960s (Klein, 1976; and Mullard, 2001). In the Scottish Budget, there are few programmes with transfers or subsidies and thus limited scope for budgetary change within the baseline. The focus in practice is on allocating the increment of growth as most of the budget reflects existing commitments and decisions are focused on those margins of the budget that it is politically and administratively feasible to change.

Under the Scotland Act 1998, the authorisation of expenditure by Scottish departments is the responsibility of the Scottish Parliament, but the arrangements need to be consistent with the Whitehall regime for planning and controlling public expenditure. During the first parliament, the UK Government moved to a new fiscal framework based on accruals accounting known as Resource Accounting and Budgeting (RAB). This was a radical departure from a cash-based system for central government accounting which had prevailed hitherto. The central theme of the reforms was the need to ensure that the Government would – over the economic cycle – borrow only to invest and not to fund current spending. A particular concern was to counter past bias against capital spending, which was seen as having led to under-investment (HM Treasury, 2002: 160). This required a more robust and systematic approach to asset management, in an accounting format which took account of non-cash economic costs such as annual depreciation and capital charges. It was anticipated that awareness of both elements of the cost of capital would enhance the decision making of managers of government services, members of government committees, Members of Parliament and government itself.

This ambitious role for this new form of accounting was not simply a question of these capital accounting changes. In addition, Resource Accounting emphasised the need to measure outputs and: ‘to cost departmental objectives more accurately and compare more clearly across policy areas and

to undertake a more systematic analysis of performance measures' (Scottish Parliament Finance Committee, 2001, para. 8).

While the construction of the capital costs was essentially a matter for HM Treasury and the Scottish Executive Finance department, in practice, the development of objectives and targets was a major preoccupation of the devolved administration. This form of budgeting can be seen as radically different from that which had prevailed in the pre-devolution world of Westminster. Here were a set of mechanisms which provided a framework for budget setting and by which parliamentary committees could participate in that process.

The budget documents therefore inform Parliament and the wider community of the Executive's plans to utilise the funds at its disposal. In practice, the approval of budget documents is the means by which Parliamentary authority for spending is made, and these provide a *statement* of the Executive's spending plans; a *mechanism* for political choice, and a *basis* for parliamentary monitoring of performance.

In the budgetary process, accountability operates around discussions of the Executive's spending plans and proposals as set out in the relevant budgetary documents. There is extensive ministerial involvement in giving evidence to and answering questions from the relevant committees regarding their portfolios in Stage 1 and Stage 2 of the process. In general, this operates in consensual mode, with detailed questioning and probing rather than partisan debate. This is *prima facie* evidence of an intertwining of politics and accounting. The new parliamentary system of committees, the environment which deliberately sets out to be non-confrontational and new forms of accounting meld together to enhance processes of democratic accountability as evidenced in the work of these committees.

The process in practice

In practice, FIAG's original notion of three distinct stages based on strategy and priorities; detailed expenditure proposals; and the budget enactment, did not materialise. With the benefit of hindsight we can see that the concepts as proposed by FIAG were well intentioned, but in practice the budgetary process which they articulated to enhance the process of budget setting can be seen to be cumbersome and overprescribed. The evidence can be seen from the actual budgetary process at the Scottish Parliament. There has been little consideration of strategy, and considerable overlap between Stages 1 and 2 and the relevant documents, the Annual Expenditure Report and the Draft Budget.

This process has been further complicated by the Spending Review process. In Scotland, the Executive carries out its own Spending Review after its Departmental Expenditure Limit has been set by the UK Government in July. The Scottish exercise is completed over the summer, with broad spending proposals published in September, and detailed allocations to sub-programmes in the Draft Budget in the Autumn. This dislocation persists

with the timing of the UK Spending Review at the discretion of the Treasury and the devolved executive having to fit in. This further undermines the original FIAG proposals.

The budget process in Scotland prior to devolution was one which Parry described as less formal than the Whitehall spending round – as the block and formula approach removed the necessity for bilateral negotiations with the Treasury – and dominated by the Secretary of State. Since devolution, however, in the context of a ‘relatively benign climate’, Parry reports that: ‘Bilaterals with spending departments appear to have been held in a rather more formalised way than hitherto, and the political atmosphere was rather different, with press reports of tight scrutiny by the Minister of Finance and a rhetoric of toughness’ (Parry, 2000: 3).

This ‘distance’ between the Treasury and the Scottish Executive looks set to continue most likely even more so in the climate of a minority government which is hostile to the concept of the union and which has set in train a series of proposals which are likely to lead to tensions between the Scottish and UK Parliaments.

In all of this the significance of finance and the finance function is paramount. In the first Scottish Parliament, the appointment of Jack McConnell as First Minister in 2002 (himself a former finance minister), led to the expansion of the finance portfolio to include *public services*, with a remit to tackle public service reform. In the 2007 SNP minority government the portfolio of the Finance Minister has further been expanded to include *sustainability*. The SNP minority government essentially has an expenditure budget but it has raised expectation that the Scottish Executive should be able to determine economic policy, as it would in a separate state. This development is likely to lead to tensions with Westminster as has the appointment of a Council of Economic Advisers to advise the SNP administration on economic policy.

In terms of the practicalities of the budgetary process the FIAG was keen to overcome the deficiencies it identified with the Westminster process of discussing and approving estimates of expenditure. One particular issue was that of making budget and related documents more accessible to enhance the level of debate. Therefore, for the devolved Parliament, FIAG recommended that budgetary documentation should follow the internal structure of the Scottish Administration and that: ‘each budget proposal should be accompanied by a narrative (i.e. a financial memorandum explaining the objectives which would set out proposed outputs and expected outcomes)’ (Scottish Office, 1998: 37).

The intention of this set of proposals was to get behind the financial figures per se and give scrutineers the yardstick of objectives and performance against objectives and a narrative explanation for those who found the numbers of official documents daunting. An example of this in practice is the *Spending Plans for Scotland* document (Scottish Executive, 2002a) which was presented as an improved framework of both financial management and

performance management, specifically because it included objectives and targets for each department, which

will increase the efficiency of our spending, enhance the way we report our finances and performance to the public, and above all ensure that our spending has maximum impact in meeting our priorities. In effect, these plans will help us to account to the people of Scotland

(Foreword of *Spending Proposals, 2003–2006*)

However, the quality and scope of the information in the Spending Review document was such that these objectives remained more aspirational than real. In some areas, the targets set were long-term, and their achievement subject to external factors as much as by Executive action, for example in reducing death rates from coronary heart disease, cancer and strokes. The budget contained no data on spending on the treatments of these diseases, and no recognition that intervening variables can influence the results.

Second, departmental information was not presented in a consistent way. Some departments provided costed output measures from additional funds, whilst others had little such data. This specific report recorded that the Executive ‘will make better use of existing resources in the prosecution of crime’, but provided no statement of expected outputs from additional funding. The *transport* chapter in particular contained *no* costed options, whilst *health* varied from the specific – ‘investing £20 millions a year to provide 1,000 community places for people leaving hospital’ – to the vague – ‘development of a wider role for nurses’.

Finally, whilst the Executive stated its commitment to its cross-cutting priorities of *closing the opportunity gap* and *sustainable development*, and set out the activities which contributed to them, the document did not cost them, nor relate them directly to the desired outcomes. The process was reviewed by the Finance Committee in 2002, who reported that it was not working as intended. In practice, there was little consideration of strategy, and considerable overlap between Stages 1 and 2, and the Spending Review had now become the focal year in the cycle. This led to a rationalisation of the process, with an in-depth scrutiny approach in Spending Review years, and a lighter examination of budgetary changes in the interim year. As a result, the Annual Expenditure Report became an Evaluation Report providing ‘an assessment of past performance and a discussion of strategic priorities’, on the basis of which committees can make spending recommendations to the Spending Review.

There has been subsequent progress. For example, the Finance Committee reported that the Draft Budget in October 2002 marked a significant improvement in financial information. This document provided for a more focused discussion of the budget, although it remained concerned at the failure to systematically distinguish baseline from new spending proposals, or to provide an assessment of their costs and outputs, and found many

examples of uncosted and unquantified outputs. In practice, despite ministerial rhetoric most allocations did not link spending directly to outputs and outcomes.

The developments in Scotland, therefore, should be kept in perspective, given the limited state of the art. Whilst the Finance Committee established a review of the potential for Outcome Budgeting with some enthusiasm and anticipation by the end of the process its aims had become more modest (Talbot and Johnson, 2003). These consultations brought consistent expressions of concern by those in delivery agencies about the problems of linking budgets to performance and outcomes, and that such progress as existed was confined to the inclusion of some outcome measures in the conventional budget process rather than the development of an alternative model (Scottish Parliament Finance Committee, 2003).

Indeed, despite the best efforts of the Finance Committee of the Scottish Parliament to enhance the quality of the information made available to Members of the Scottish Parliament by its engagement with the finance officials of the Scottish Executive there has been a failure to achieve wider interest amongst parliamentarians in the documents produced for the budgetary process. There are a number of reasons for this. These documents remain very technical and in this sense, they are not readily accessible. There are limited numbers of MSPs who have the technical ability to read, interpret and challenge the financial plans of the Executive. There has been a process of almost continual change in the specification and technical content of these documents which is confusing for non-specialists. There has been a turnover of MSPs with specialist knowledge within the life of the Scottish Parliament. This means that, to date, the revolution in accounting practices to inform finely grained debates in the matter of budgets and resource distribution has not worked. Instead, there is a temptation to respond to, and act on, headline figures. An important element of this is the need of the Scottish Executive to clarify its objectives by setting priorities in financial terms for its own purposes and for scrutiny by Parliamentary Committees and by the Scottish Parliament itself. This is a matter which we address, next.

Setting priorities in expenditure plans

The experiences of the previous two coalition governments illustrate the difficulties of the articulation of strategic priorities, per se and the relationship of these policies to each other in financial terms. In this sense the idea of policy led budgets is thwarted by difficulties of constructing refined budgetary priorities. If we take the example of some of the early Expenditure Plans of the Scottish Executive, this point is accentuated. For example, in 2002 there were five expenditure priorities for spending agreed in the Spending Review, i.e. improving health, improving education, reducing crime, strengthening transport and creating jobs, whilst budget proposals were further assessed against their contribution to *closing the opportunity gap* and

sustainable development (Scottish Executive, 2002b and 2002c). Analysis of relative expenditure growth on priorities is problematic in the budget documents, as funding support for local authority services is allocated through the Revenue Support Grant, which is a block allocation not tied to specific programmes.

The Scottish Parliament, in the shape of its Finance Committee, therefore took the view that the information provided at that stage did not allow it to assess whether the cross-cutting approach was effective; and it expressed doubts that cross-cutting expenditure on other programmes would have a significant effect on the crime and transport objectives. The main problem here was the inability to tell whether priorities were being effectively targeted. This committee therefore recommended that the Draft Budget and the Spending Review documents should systematically illustrate how additional funding was to be spent, what outputs were to be provided, and how these decisions would enhance the Executive's priorities (Scottish Parliament Finance Committee, 2002).

One of the aims of devolution is to increase parliamentary scrutiny of Executive decisions. Scrutiny of the new budget in Scotland is intensive in comparison with past practice in its predecessor, the Scottish Office, which was dominated by the Secretary of State, and scrutiny was minimal (Hogwood, 1999). In contrast, there is now considerable time devoted to budget scrutiny: the consultation process operates in such a way that Parliament does influence the budget choices; and the range of documents now provides significantly improved financial and performance information from those inherited from the Scottish Office (Scottish Parliament Finance Committee, 2003). However, there remain difficulties over the capacity of MSPs to effectively scrutinise and critique these documents.

In practice scrutiny operates through constructive criticism to obtain explanation and justification for expenditure proposals or to improve financial performance by the Executive, rather than in forcing divisions in Parliament. Over the life of the first and second Parliaments, there have been *no* amendments to the budget which were proposed by opposition parties. This reflects the consensus over priorities within committees of the Parliament. However there are differences over tax powers and tax levels between the political parties.

It is true that Holyrood rejected the Westminster model as failing to provide an effective check on executive power (Cowley, 2002). It has brought greater involvement from committees and groups in the process. But whilst there is a greater degree of consultation, this is mainly with interest groups giving evidence, or attending the ministerial 'roadshows' which conduct consultative meetings in a few locations each year. A few finance specialists also use the opportunity to respond directly to ministers over the consultation documents. The Finance Committee has regularly expressed satisfaction with the results of the consultative exercises it undertook in the scrutiny process. However there remain challenges to get a wider MSP engagement and involvement in the budgetary cycle.

Effective financial scrutiny does not require the Parliament to second guess the Executive, or win high profile budget decisions. Rather, its task is to probe the realism of the Executive's assumptions and arguments; and question the effectiveness of its budget proposals. Through the consultative process, the Scottish Parliament can recommend changes which are likely to be accepted by the Executive although it has tended to focus on the formal process of document specification rather than on specific spending plans.

A study of the Treasury concluded that Chancellors can treat Parliament with contempt, and saw a need for Parliament to examine expenditure plans and priorities, crawl over the budgets of each individual department, and look at the relative rates of budgetary growth and assess whether these are consistent with government strategy. It should consider cross-cutting issues, and produce an annual report on government spending as a whole (Lipsey, 2000). In Scotland, such recommendations are already central to the budget reform process although we express caveats about just how trenchant this review process can be as a mechanism of democratic accountability when many MSPs have limited interest in this aspect of their role as representatives of the people.

Most importantly, on the basis of the business of the life of the 1999 and 2003 Scottish Parliaments, the budgetary information presented to Parliament reveals the continuing limitations of the modernisation agenda. In the budgetary context, the emphasis on cross-cutting issues and target-setting is seen in part by modernisers as a means of challenging departmentalism. The Coalition Executive had two cross-cutting priorities, although sustainable development was managed as an underlying principle of all public services rather than as a benchmark for evaluating expenditure proposals. By contrast, closing the opportunity gap was a budget priority. A strategy document (Scottish Executive, 1999) argued that social justice must be promoted across each area of government policy and practice, and required a 'more effective rethink of how we allocate and use public budgets' through ensuring that allocations reflected 'local requirements and preferences rather than the traditional vertical structures and silos of government' (p.18), and ensured that 'departments prioritise activities that support disadvantaged individuals and areas – poverty proofing – and encourage interdepartmental cross departmental working' (p.19). Mainstream programmes 'may often be the key government influences on localised well-being' (p. 20).

This heady rhetoric echoes advocates of budget reforms in the past. Unsurprisingly, progress with both joint-working and measuring results has been and continues to be problematic. It remains to be seen if the current minority government will seek to perpetuate these ambitious attempts of the first two Scottish Parliaments to produce refined budgets or if it will resort to simpler procedures. For the first two programmes the budget was allocated on a departmental basis, with many of the initiatives to promote social justice, such as health promotion, social inclusion partnerships, or Sure Start Scotland, operating alongside the conventional mainstream

programmes of school, healthcare and housing provision. This makes monitoring of policy-led budgets difficult. Indeed, evidence of reallocation *within* programmes in the first two Parliaments was limited, amounting to modest tweaking of resource allocation formulae at the margins. Moreover, the links between policy objectives, programme budgets and societal outcomes are extremely complex. For example, a report by the Finance Committee on child poverty concluded that, despite the rhetoric of joined-up government ‘several departments and agencies see child poverty as peripheral to their concerns, and therefore giving priority to expanding core services is an inadequate basis for progress’ (Scottish Parliament Finance Committee, 2003: 34–35).

One of the problems in practice is that whilst the Executive makes extensive use of the language of priorities, it has not defined what a priority means in terms of resource allocation. Does it mean having first call on resources, or does it mean getting above average allocations, or a large share of new monies, or what? This vagueness makes it difficult to assess the extent to which priorities are reflected in budget decisions. Setting clear priorities is necessary if the most effective use of resources is to be made. In the main, however, these have been too general to provide meaningful strategic criteria to guide resource allocation. These are set out in Table 6.1.

Despite the rhetoric of budgeting for outcomes, the reality is that linking resources with results is very problematic. Whilst it is incontestable that investment in public services assumes output will increase and outcomes will improve, practice falls short of aspiration, and is particularly problematic with crosscutting issues. External variables consistently influence outcomes.

Table 6.1 Changing priorities in the Scottish budget

<i>Spending Review</i>	<i>Priorities</i>
2000	Promoting social justice Improving infrastructure Creating a competitive economy Modernising public services
2002	Improving health Improving education Reducing crime Strengthening transport Strengthening the economy Closing the opportunity gap Sustainable development
2007	Growing the economy Delivering excellent public services Supporting stronger, safer communities Developing a confident democratic Scotland Closing the opportunity gap Sustainable development

There is a need for financial reporting which demonstrates how spending has reflected priorities. The present Executive always makes economic growth a priority, though it has few tools to influence it, and those it has are micro-economic. Yet the former Executive refused to set a target for growth, as it felt it was impossible to link changes in budgets to changes in outputs, because of the range of intervening variables which can influence the result. In short, it cannot budget for outcomes because of measurement constraints.

The Scottish experience is consistent with practice in the USA and Europe. As Forsythe (2001) has observed, there is consistent advocacy of performance indicators in budgets as 'indispensable tools for improving management and accountability in government', but warns that 'too little attention had been given to the problems of managing for results' (p.vii). This administration would also like to increase the amount of care which is made available to the elderly without charge. Cumulatively, these policies represent budgetary management by headline announcement rather than by a careful evaluation of all costed policy options which are rigorously scrutinised within the context of a budgetary framework. The first defeat of this Minority Government has been its enforced adoption of a new transport system to link Scotland's capital city to its airport. While all of its MSPs voted against this proposal they were unable to overcome all of the opposition parties uniting in sufficient numbers to approve the adoption of this new transport system. All of this is indicative of the instability of minority government and the attenuation of accounting information in democratic accountability.

The SNP had been heavily critical of the previous Executive's management of the public finances. Indeed, one of its first jobs was to publish the Howat Report, commissioned by the previous Administration, which concluded that the budget process was hampered by a lack of clear priorities (Howat, 2006). Yet from its early statements, it is clear that it has retained much of the modernising agenda in respect of budget-making, whilst asserting it will do it better.

New Labour's rhetoric of joined-up government and outcome budgeting is to be found in the SNP's ministerial statements to Parliament. For example, the First Minister, Alex Salmond, claimed that his government will be 'strategically focused', and 'aims to break down the boundaries and borders that exist in government which can often hinder the most effective strategic outcomes and a focused approach' (statement to the Scottish Parliament, 23 May 2007). Its overarching priority will be faster and more sustainable growth.

The Finance Minister, John Swinney, developed this theme further, promising a strategic approach which left the detailed management of services to delivery bodies, local decisions to local decision-makers, and local service delivery to workers at the frontline. This would allow national government (i.e. Scottish) to concentrate on governing, and on providing leadership, direction, and focus on the strategic priorities (statement to the Scottish Parliament, 24 May 2007).

The Finance Minister went on to outline the Administration's five strategic purposes, which are worth setting out in full:

Our objective of a wealthier and fairer Scotland will be achieved by enabling businesses and people to increase their wealth and more people to share fairly in that wealth. Our objective of a wealthier Scotland will be pursued by helping people to sustain and improve their health, especially in disadvantaged communities, and by ensuring better local, and faster access to, health care. Our objective of a safer and stronger Scotland will be delivered by helping communities to flourish, becoming stronger, safer places to live, through offering improved opportunity for a better quality of life. Our objective of a smarter Scotland will be achieved by expanding opportunity for Scots for success, from nurture through to lifelong learning, ensuring higher and more widely-shared achievements. Our objective of a greener Scotland will be improvements in Scotland's natural and built environment and the sustainable use and enjoyment of it by all.

(Statement to Scottish Parliament, 23 May 2007)

The Finance Minister further stated that they would not pursue micromanagement, would build on the Best Value approach, and would 'squeeze out duplication and waste'. His deputy, Jim Mather, continued in this vein, on the need to measure outcomes, as the only way of 'keeping our finger on the pulse', with the key outcome of sustainable long-term growth.

What is clear to us from this review is that the SNP is repeating the mistakes of its predecessor. In 2001, the Finance Committee commissioned an independent review of outcome budgeting in practice. It concluded that whilst many governments have tried to produce a fully integrated hierarchical process of outcome definition, priority setting and performance management, none has actually delivered a model that works in practice.

In our view, the new Administration has adopted precisely such a textbook model. It has too many strategic priorities, and one of these relates directly to the responsibilities of the five cabinet ministries. Strategic priorities should provide crosscutting criteria which offer wider perspectives on traditional functional objectives, to help politicians exercise strategic choices *between* ministerial bids for resources. Under these priorities – any proposal could be seen as contributing to one or more of these criteria. If everything is a priority, then nothing is a priority.

Second, the simplistic notion that the business of planning and managing public services can be neatly separated out into strategic/managerial/operational activities bears no reality to the interdependences between them, and the political process which links them. Strategic decisions have implications for both departmental management and service provision and interaction over local decisions will remain commonplace, whether over school closures, planning controls or whatever.

Moreover, the Scottish Executive has a range of departments with competing and conflicting objectives and with Cabinet policies which will not disappear in pursuit of a single dominant objective. The SNP are setting up precisely the ideal type model which has consistently failed over the years. In advising the Scottish Parliament, one of the authors of this chapter put it precisely to the Finance Committee in this way:

It is important that we do not pretend we have an ideal model. We must be conscious of the realities with which we work. In a simplified textbook world, the budget would state what our objectives are, what the outcomes will be, and what is being spent on each set of target outcomes. The Scottish Executive's budget, like every other public agency or government in the world, is complex and is the result of multiple decisions over time.
(Midwinter, 2005a)

Indeed, official confirmation of the limits to budgetary co-ordination is found in the report of the Independent Budget Review Group. This revealed that whilst Finance Ministers review and challenge portfolio bids for funding, they only determine the allocation to each programme, *not* the budget options which will be funded.

Responsibility for the spending mix within programmes rests with spending ministers and heads of departments who may downgrade strategic priorities to departmental priorities (Midwinter, 2005b: 12). Moreover, the continuity in the budget approach between the two Executives will reflect the conventional bureaucratic orthodoxy over how budgets should be made. The fundamental problem remains that accounting techniques are not capable of effectively targeting and robustly monitoring spending on priorities such as economic growth.

The result is that the new SNP Executive has adopted as its top priority an aspect of public policy for which it has no responsibility, and only has micro-economic policy instruments under its control. It has set a target which is an inadequate measure of economic performance, and which its economists have stated cannot be directly linked to budget allocations. Moreover, its definition of the problem as one of economic underperformance is simplistic and not widely accepted in independent research (McLaren, 2003; Turner, 2005).

This makes it difficult to agree that the budgetary process in Scotland promotes transparency and accountability in the absence of accurate financial and performance reporting against spending plans. The answer lies in politicians adopting more realistic priorities and targets over issues which the Executive can influence, in a more selective approach which prioritises spending at the margins where it can be effective.

At the time of writing, a major problem of budgetary accountability is emerging. The current process allows the Executive final say over budget allocations, leaving parliament with only the 'nuclear option' of rejecting the

budget in its entirety. Opposition members raised the possibility of committee recommendations being converted to budget amendments, so that Parliament's control over the budget can prevail. The current approach was designed on the assumption that Executives would have a parliamentary majority over the budget. A reform whereby the Budget Bill would allow the Executive to seek to reverse committee amendments by voting in the Chamber would enhance parliamentary accountability. The power of the Executive to pass a budget without parliamentary support is clearly undemocratic, and is a weak form of modern governance. However, the minority SNP government did manage, by concessions on police numbers and on nondomestic rates, to negotiate a majority approval for its 2008 budget proposals with the support of the Conservative Party.

Conclusion

In the devolved Scottish Parliament there is a much more detailed scrutiny of public expenditure than that which took place for the predecessor organisation – the Scottish Office. However, this is not saying much. The Scottish Office was obscure and anonymous in budgetary terms. The scrutiny of its expenditure was as a small part of the scrutiny of the government machine at Westminster. Therefore the process of public accountability for funds held and expended has been enhanced. However there remain serious questions about the effectiveness of this process.

The system of budgetary scrutiny devised by the committee which was charged with producing an inclusive system in which parliamentarians play a more prominent role, has proved to be over-elaborate and over-prescribed. The laudable aim of parliamentary involvement has foundered on the difficulties posed by the very nature of accounting information. This has proved to be of less interest to parliamentarians than other policy issues and has proved difficult for those Members of the Scottish Parliament who have limited technical expertise in financial matters. This has been exacerbated, rather than alleviated, by the new system of governmental accounting which has not connected with parliamentarians.

The experiences of the current minority government we characterise as 'management by headline' rather than by rigorous scrutiny. However, even in the previous parliaments, there were challenging issues over budgetary systems. Within the Scottish Executive budgets remained departmentally driven, and the integration of objectives, budgets and results was problematic. Moreover, given the conventions of ministerial accountability, the agendas for parliamentary reform and modernising government could be in conflict, and thereby, blur accountability in the budget process.

The nature of the financial management information system that is resource accounting and budgets could be seen as being based on the New Public Management model (Hood, 1991; 1995). This has proved to be of limited value to politicians at the Scottish Parliament in exercising budgetary choice

between programmes. Despite the greater transparency of such information, politicians complain of information overload (Ezzamel *et al.*, 2004). The need is not for a fashionable but unrealistic focus on results, but a simple clarification of baseline spending; a requirement for costed proposals for new spending with outputs where possible; and for a more systematic approach to relating departmental proposals to strategic priorities. It remains to be seen if the current minority government will revert to the practices of its predecessors or will seek refinements.

One particular feature of the Resource Accounting and Budgeting system was the aim of integrating performance information in budgetary documents. However in the first two Parliaments, performance information did not greatly influence budget decisions, and was subsequently dealt with within the planning cycle through performance reporting in an annual report. However, many of these refinements have added little value to the use of accounting, broadly defined, in the exercise of democratic accountability. Fundamentally, the budget is a mechanism for political choice, and overall the process needs to be focused more closely on the political choices available, not overloaded with statements of objectives and targets of dubious relevance.

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7 **Accounting and democratic accountability in Wales**

Mahmoud Ezzamel

Following the 1997 referendum, the Welsh voted in favour of devolution by a very small majority, compared to the much stronger vote for devolution in both Northern Ireland and Scotland, and the Welsh Assembly came into existence in 1999. One of the key changes that occurred as a result of political devolution was that national governments became responsible for designing their planning activities in the areas for which they held power, in the main health, education, housing, culture, local government and the economy. Each local government receives an annual allocation of funds from the Chancellor, using the Barnett formula (based on headcount), which is then allocated by the Finance Minister of the national government among the various sectors. Hence, devolution has led to a new context in which the Welsh Executive now engages in a full budget cycle involving the preparation and monitoring of its own budget and supportive documentations. Also, the Welsh Executive now produces a host of reports containing various accounting targets, statistics and metrics that have the potential of being deployed by members of the new assemblies, external bodies and the public.

In this chapter, I examine the role of accounting calculations and other measures in the functioning of the Welsh Assembly during its first term of office (1999–2003). I explore the various perceptions held by Welsh informants of the notion of democratic accountability and the extent to which they believe it could be facilitated or inhibited by accounting calculations. I contrast the views of politicians and civil servants concerning the meaning of accountability, review target and budget setting in the Assembly and relevant civil service bodies, and explore the process and mechanisms of accountability. I focus on politicians' understanding of budgets and accounting calculations, describe their demand for the interpretation of accounting numbers and the advice they seek in order for them to gain an understanding of accounting calculations, and comment on how they deal with information overload.

The material discussed in this chapter draws upon a variety of sources relating to Wales: face-to-face open-ended interviews; non-participant observations of Assembly committee meetings; official planning documents and research reports and media covering. In total, twenty-four interviews were

conducted between January 2002 and April 2005 with the Welsh Executive and civil service, Assembly members, advisors and experts and audit institutions. The interviews lasted between one and one and a half hours, were tape-recorded and later transcribed and content analysed. The interview questions covered a wide-range of issues relating to the informant's understanding of accountability, the extent to which accountability improved, or deteriorated, after devolution, the extent and quality of information provision, including accounting information, their ability to understand such information, budget cycles and formation of budgets, resource accounting and budgeting, and the extent to which they perceive accounting numbers to help political debate.

The intended aim of the chapter is to draw some conclusions regarding the extent to which the new accounting and budgeting systems introduced in the Assembly facilitate informed political decisions, democratic accountability and joined-up government, given that these aspirations have been at the centre of the devolution reforms introduced by the 1997 Labour Government. The remainder of the chapter is organised as follows. In the next section, I provide a summary of the diverse notions of accountability expected of politicians. In this context, I contrast the views of politicians' accountability held by politicians themselves against the views of the civil servants that furnish these politicians with information, interpretation and advice. In a following section, I discuss targets, target setting and budgets in the Assembly. This is followed by a section in which the process and mechanisms of accountability are discussed, including degree of understanding of accounting and budgets by politicians, their demand for information, interpretation of information and advice, and the extent of information overload they experience and what strategies they adopt to deal with this problem.

Perceptions of accountability

Sociologists (e.g. Garfinkel, 1967; Giddens, 1984), organisation theorists (e.g. Bittner, 1965; Silverman and Jones, 1977), and more recently accounting academics (e.g. Roberts and Scapens, 1985; Hoskin and Macve, 1988; Roberts, 1991; Munro and Mouritsen, 1996; Ahrens, 1996; Ezzamel, 1997; Ahrens and Chapman, 2002) have attempted to develop the concept of accountability as a central theme for understanding social action. For Garfinkel (1967), any attempt to organise work is inescapably intertwined with rendering human activities accountable; quite simply accountability practices are pervasive as a means of humans rendering themselves and their worlds countable, reportable and hence observable. As Willmott (1996: 27) has noted, for such writers as Garfinkel, the world exists only in so far as we account for it so that, in Garfinkel's (1967: 1) own terms, the social world is 'an endless, on-going, contingent accomplishment'. Accountability is therefore held as a major bond in social interaction; it is a process of 'giving and demanding of reasons for conduct' (Roberts and Scapens, 1985: 447). As Giddens (1984: 30) has argued: 'To be "accountable" for one's activities is both to explicate the reasons for

them and to supply the normative grounds whereby they may be “justified”. By continuously rendering accounts of their activities to others (monitors, auditors, etc.), subjects seek to gain legitimacy by demonstrating the ‘rationality’ of their actions, and hence their social competencies (Czarniawska-Jorges, 1996: 308).

A study that is particularly close in affinity to the focus of this chapter is that by Ezzamel *et al.* (2007b) who examine notions of accountability in UK schools following the introduction of devolved budgets and local management of schools. They draw on the work of Garfinkel (1967) to distinguish two notions of accountability: regulatory discourses of accountability, and hence legitimacy, to which organisations are subject, and the normative and cultural-cognitive institutions of accountability expressed through the ‘giving of accounts’ to each other of what organisational members do or achieve in their jobs. They examine the socially constructed meanings of accountability and link them to the *regulatory* and the *folk* sources of meaning construction (Scott and Meyer, 1994) in the organisational field of education. In this chapter, my focus is upon notions of accountability in the political field within the context in which the Welsh Assembly operates.

Devolved, responsible and democratic political accountability is a key aspiration of the devolution programme launched by the 1997 Labour Government. In order to make sensible connections between accounting and democratic accountability, it is imperative to first explore what perceptions of political accountability are held by those who have been interviewed in the Welsh Assembly in the course of this research. In this section, distinction is drawn between the perceptions of accountability held by two sets of actors: politicians, including the Welsh Executive and other members of the Assembly, and civil servants working for members of the Assembly as technical advisors. The aim is to explore the extent to which the notion of democratic accountability is fundamentally coloured by professional affiliation of politicians as elected members of the Assembly in contrast to civil servants as salaried employees who have different professional backgrounds as well as possibly different temporal priorities.

Democratic accountability: the politicians

Whilst I was intrigued by the possible differences that may emerge concerning the perceptions of democratic accountability between politicians and civil servants as two distinct groups of professionals, I also acknowledge the possibility of, and the scope for, differences that may arise within each group, rather than assuming within-group homogeneity. At the very least, it is possible that within-group differences may emerge in relation to how democratic accountability may be best conceptualised and operationalised owing to differences in level of office (cabinet member vs. back benchers), membership of different political parties, and the informant’s habitus (Bourdieu, 1977; 1991). Notwithstanding this possibility, there has been agreement among informants

overall that the form, if not necessarily the meaning, of accountability has changed radically since devolution.

Prior to devolution in 1999, Wales was politically represented in Westminster through its elected members of parliament in the House of Commons and the Secretary of State for Wales, who presided over the Welsh Office, a Ministerial appointee made by the British Prime Minister. In contrast, following devolution Wales still has members of Parliament as part of the House of Commons, in addition to its own Assembly with power to decide how to spend its budget allocation on matters of education, health, the economy and local government, but unlike the case of Scotland, the Welsh Assembly does not have tax raising powers. It is worth stressing that the National Assembly of Wales is a corporate body with a number of statutory responsibilities. Cabinet Ministers are responsible for observing these statutory responsibilities, assisted by advice from the office of 'Compliance', within Finance. The interview questions sought to solicit the views of interviewees concerning contrasting accountability in these two different contexts, i.e. before and after devolution.

In describing accountability prior to devolution, one senior member of Cabinet referred to what he called the 'colonial position' from which Wales was governed by one person, the Secretary of State for Wales, who was effectively only accountable to Westminster as indicated above. After devolution, politicians became accountable to the popular vote of the Welsh people. Hence, these responses from the interviewees suggest that accountability shifted significantly in scope, from a concept of hierarchical accountability to non Welsh politicians (hence the reference to 'colonial position') before devolution to popular accountability before the Welsh electorate following devolution. These views focus upon regulatory forms of accountability that are part of the legitimising exercise in which political institutions, like all kinds of organisations, are engaged (Scott and Meyer, 1994). There was also agreement that the extent of political accountability is far greater after devolution compared to previously, and, as one member of an opposition party stated, this increased accountability extended not only to the Assembly but also to other Welsh public bodies. Compared to before devolution, where the 'Welsh angle' was formed and communicated to Westminster by the Secretary of State for Wales, post devolution this is achieved via greater involvement of relevant professional bodies and lobby groups in ongoing discussion and deliberation.

Assembly members recognised by their peers as special 'knowledge experts' who are involved on a regular basis, several informants argued, were also better informed about the details of any given situation compared to the Secretary of State for Wales before devolution. Moreover, compared to the case of Westminster where a Chinese Wall is depicted as separating politicians from civil servants, members of the Assembly indicated that they have much easier access, both formally and informally, to civil servants to obtain their advice/clarification and request whatever additional information

they needed (but see later comments on the different mindset and priorities between Welsh politicians and civil servants suggested by interviewees). Also, Assembly members are now held accountable to Regional Committees in terms of 'political answerability', an accountability that was not available under the Westminster model. Finally, the system infrastructure in the Assembly is held to provide more information compared to Westminster, which is understood to facilitate more transparent accountability. Yet, despite this widely shared view that transparency of information and accountability are far greater after devolution compared to before, there were some members who lamented the lack of what they regarded as important information after devolution. One member of a coalition party mentioned in particular the lack of information on Private Finance Initiatives (PFI) that made it impossible for that member as well as others to develop an informed debate on PFI.

Evident in the above are the forms of regulatory political accountability that the devolution system seeks to institutionalise as a means of securing legitimacy. Regulatory, or compulsory, accountability can be viewed as a form of institutional isomorphism (coercion), where all organisations within a particular organisational field are obliged to render accounts of their behaviour/performance as stipulated by certain, previous rules and procedures defined by a regulatory agency and external constituencies. Regulatory accountability, as an institutionalized myth, is enforced upon the committees and actors of the Welsh Assembly in the political field by external constituencies such as public opinion, interest groups, professional associations, as well as by Westminster and the Welsh Assembly. In institutional theory framework, compliance with the demands for regulatory accountability by actors in the Welsh Assembly is assumed to be rewarded in the form of increased social legitimacy and an avoidance of the charge of 'negligent or irrational behaviour' in the eyes of society (Meyer and Rowan, 1977/1991; Scott, 1995).

The greater the distance between the entities within the accountability relationship (for example, between the Welsh Assembly and Westminster), both horizontally, and more importantly, vertically, the more the accountable organisation is under pressure to enhance the visibility of its accountability. Precisely how the accountable organisation, in our case the Welsh Assembly, performs this task, and the extent to which its claims of being accountable are 'truthful' are perhaps side issues.¹ As Hannan and Freeman (1984: 153) have remarked:

[Accountability] does not necessarily mean that organizations must tell the truth to their members and to the public about how resources were used and how some debacle came about. What matters is that organizations can make internally consistent arguments to the effect that appropriate rules and procedures existed and embraced to produce rational allocation of resources and appropriate organizational actions.

In the tradition of institutional theory, an organisation, such as the Welsh Assembly, can be 'economical with the truth' and yet can still reap the rewards of social legitimacy if it can demonstrate to external constituencies that its procedures and practices embrace expected rational norms of behaviour. Once the Welsh Assembly can *demonstrate* the consistency and rationality of its internal procedures, a combination of asymmetric distribution of information and greater ambiguity about the Assembly's domain of activities as well as uncertainty of future states of the world help to conjure up a perception by external constituencies of a rationally behaved organisation. The Welsh Assembly can then be deemed legitimate, stable and reliable, thereby commanding the support of society in terms of having increased access to resources, which enhances its longevity (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Oliver, 1991). By legitimising its activities in this manner, the Welsh Assembly can avoid the risk of being regarded by society as non-accountable, hence minimising the chance of being deprived of resources (Hannan and Freeman, 1984).

Concerning the meaning of accountability, several dimensions were highlighted. First, there is the moral dimension of being accountable to one's conscience for ensuring that the individual discharges his/her political responsibilities effectively and efficiently. Such evangelical, folk notion (Garfinkel, 1967; Ezzamel *et al.*, 2007b) and individually-driven sense of accountability may be taken to signal personal commitment by the politician towards the electorate, and it carries with it the sense of personal triumph when political promises are delivered but also the disappointment when the political system fails to deliver. There is also political accountability concerning the extent to which the Cabinet and members of the Assembly observe openness in conducting affairs; inclusiveness of participation through the active involvement of all relevant parties; and being answerable for what they do in formal sessions of the Assembly, plenary and committee meetings, outside organisations such as lobby groups, and the electorate at large (these are mostly elements of regulatory accountability). Some members emphasised the *process* of accountability, such as the free flow of information, rather than simply the procedures and lines of accountability. In such a focus, democratic accountability is not simply a chain of committees and organisations before which a politician is hauled to account. Free flow of information is considered essential, as is the presence of people who are not only interested in the information but also *act* on information availability by using it to hold politicians accountable.

Democratic accountability: the civil servants

Here, the focus is less upon examining perceptions of accountability of civil servants, but more upon their own understanding of what democratic accountability of politicians entails. These perceptions are significant in that it is these civil servants who furnish politicians with both information and advice,

and hence they are in a position to influence the manner by which politicians discharge their accountability. Through their control over information and advice, civil servants can even shape what politicians come to consider as their primary domains of accountability. However, it is also important to note that the activities and responsibilities of senior civil servants can impact in profound ways on the performance of the whole Assembly, thereby at the very least influencing the perceptions of the public as to the quality of democratic accountability for the entire political process.

One civil servant responsible for financial planning emphasised politicians' dual accountability. For him, this involved both political accountability to the electorate and financial accountability by ensuring value for money and financial probity. It is perhaps not surprising that, at least for some civil servants, the financial dimension of politicians' accountability is seen as being important. The key domain of political accountability is seen to relate to the Ministers' success in keeping actual expenditures for specific policies on track compared to intended expenditures or budget targets. This renders accountability precariously dependent upon both the quality of information and the targets, as policies are typically associated with targets for Welsh politicians. Some civil servants bemoaned the lack of having systems in place and systemic information to monitor target achievement, as political accountability is seen by them to be tied to target achievement.

The researchers serving a particular political party play a key role in prompting politicians as to what may be deemed key issues to debate against the Cabinet, and this is all driven by the extent to which the performance of the Cabinet in any domain is calculated to have achieved or fallen short of the targets. In this sense, the Ministers set the targets against whose achievement they are held accountable. These targets are likely to be set in light of Cabinet policy, political aspirations and the aspirations of the electorate. A key question is, given the preponderance of targets, what does it mean in accountability terms if the government achieved some targets but not others? One civil servant noted that:

What is the nature of the commitments that have been made and what does it mean to achieve it, we don't seem to really bottom that one. The Assembly sets targets for local government organisations, rafts of them, stacks. The full implications of those not being achieved has never been set eye on, so it is an interesting issue.

Targets, target setting and budgets

As indicated above, the comparison of achievements against previously set targets is a fundamental issue that underpins the notion of accountability in the Welsh Assembly. The focus of this section is upon examining targets and target setting within the Assembly before exploring the process and mechanisms of accountability. There is a general feeling among politicians and civil

servants that the Welsh Assembly and its associated bodies both produce and are subjected to a massive battery of targets. In an important sense, targets seem to almost flow from, while not necessarily being equivalent to, political announcements by Ministers, over and above carefully drafted political aspirations and policy statements. Fairly broad Ministerial pronouncements are converted into some quantifiable target by the statistical office. But frequently, quantifying such pronouncements is problematical. One typical source of problems is that politicians tend to overestimate availability of disaggregated data at local levels, because much of such data is either unavailable or quite inaccurate. The integrity and reliability of much of the local data is therefore questionable, rendering any targets based on them problematical.

Many of the targets for the Assembly and its associated bodies are expressed in the annual budget. During the first term of the Welsh Assembly, no single political party enjoyed an outright majority. Labour, as the largest single party, in coalition with the Liberal Democrats, formed the Cabinet leaving as opposition Plaid Cymru (the biggest opposition party) and the Conservatives. The budget documents produced during these first four years were accompanied by a detailed document known as 'The Partnership Agreement' which spelt out the aspirations of the coalition government for each year. The Partnership Agreement is the product of political compromise, that sought to align and accommodate the aspirations of both the Labour and Liberal Democratic parties. In reading the Welsh budget, it is difficult to make sufficient sense of its various entries without referring to the Partnership Agreement. Hence, this document and the annual budget combined could be seen as a statement of the targets declared by the Cabinet for any given year. In the 2003 elections Labour won an outright majority to form a Cabinet, so the Partnership Agreement came to an end.

The Welsh Assembly operates under a set of Standing Orders, one of them (Standing Order 19) stipulates that every year, the Assembly must carry out the annual corporate and budget planning round. This is a process through which the Assembly makes decisions about how to allocate its budget between the various sectors of the Welsh economy. As an example, in 2003/4, the Assembly's budget was £11.3 billion. Annual budget resources flow from Whitehall to Wales under the Barnett formula, which is calculated mainly on population shares between the countries that make up the UK. Annual budget increases accruing to any of the UK devolved governments is essentially a 'Barnett' share of any increase to Whitehall departments existing budgets. For example, in 2003/4, Wales' Barnett share for Health was 5.89 per cent of the increase in the funding of the Department of Health.

The Welsh budget has two key ground rules. First, until the Assembly votes the budget, all Wales' money, irrespective of the sources of Barnett flow, is a resource to be spent according to the priorities of the Assembly. Second, the Assembly can decide to allocate more money to any given sector than the amount it gets for that sector under the Barnett share.

During the first term of the Assembly, our interviewees suggested, the budget cycle in Wales proceeded as follows. In the early summer (around mid-May), the Finance Minister invited other Ministers to consult committees about their priorities, submit and discuss proposals for the forward three years (first year is a firm budget, second and third years are indicative), and to contribute to Cabinet discussion about overall priorities. Each Minister consulted with committees up to late May/early June with June as a deadline for responses to budget consultations. In August, the Finance Minister held bi-lateral meetings with Ministers over their budget bids, and this was discussed further in Cabinet in mid-September. In early October, a draft budget motion was tabled at Cabinet which became the subject of a plenary debate a week later. To facilitate openness and transparency of the political process, the budget document was made available to opposition parties five days before the debate. In the third week of October, subject committees discussed draft budgets and in late October a final budget motion was tabled in Cabinet and a plenary vote took place in the first week of November.

The Welsh budget is based on line items, covering original plan, original baseline, total change in allocations, new plans and indicative plans. The budget is essentially a purely quantitative spreadsheet with no explanatory narrative. It contains three tiers: main expenditure groups (ministerial portfolios); significant expenditure groups (subsets of major expenditure groups, e.g. higher education and further education); and budget expenditure lines (BEL), which represent individual budget items at the micro level.

The role of civil servants involved in the budget is to align resources with the political agenda of the Cabinet. It was in 2002 that cash budgeting was replaced by resource budgeting, a shift that seems to be welcomed by civil servants, because it is held to improve accountability. Civil servants hold the view that resource accounting is superior to cash-based accounting because the former presents a more realistic record of the efficiency and effectiveness of how public money has been spent. The vast majority of interviewees, particularly civil servants, regard resource accounting and budgeting as far more accurate, more reliable and more helpful for planning and control decisions. Moreover, they argue that resource accounting and budgeting is a far better way of dealing with public money, compared to cash budgeting, and that it is certainly the way forward for planning and monitoring the spending of public money.

Politicians, however, seem to acknowledge the superiority of resource accounting and budgeting but a number of them at least confess to not understanding what this means or entails. As a consequence of such lack of understanding, it seems that politicians, at least during the first term of the Welsh Assembly, remained heavily wedded to cash budgeting as something to which they can relate, compared to resource accounting and budgeting which they had serious difficulty comprehending.

Civil servants suggested that there appears to be two accounting systems at work simultaneously, cash budgets which are used for making decisions,

and resource budgeting which is simply used to ensure that the books balance and to give the impression of compliance with regulatory requirements. In this sense we have the classic argument of traditional institutional theory, one in which there is a decoupling between declared systems in use (resource budgeting) and the system actually employed in guiding decisions regarding public spending (cash budgets); in this way politicians continue to think and act in terms of cash budgets (so little, if anything, has changed) while simultaneously giving the appearance of compliance with resource budgeting to secure legitimacy (Meyer and Rowan, 1977/1991; DiMaggio and Powell, 1983).

A view that seems to be widely shared among informants is that the Welsh budget setting is highly participatory, and that details about implications of resource accounting and spending are made available. There was, however, no consensus on this as some politicians had reservations about the lack of detailed scrutiny of budget items.

Process and mechanisms of accountability

The main concern of this section is to examine the accounts offered by informants concerning the process and mechanisms enshrined in the practices of the Assembly, its associated bodies and their accountability to external constituencies and the public. Within the framework of the Assembly as a political institution, there are several levels through which regulatory accountability cascades (Garfinkel, 1967; Scott and Meyer, 1994). At one level, there is accountability within the cabinet itself, between Ministers, and between Ministers and the First Minister. Beyond that, there is the level of accountability involving ministerial staff reporting to Ministers, and the Cabinet to members of the Assembly, be they from the ruling Labour Party or the opposition. There is also the accountability of committees and associated bodies of the Assembly to the Assembly. Added to this is accountability to Westminster and Whitehall, to external constituencies, and to the electorate at large. It is beyond the scope of this chapter to trace all these layers and levels of accountability in any detail. Rather, the concern here is to tease out the process through which accountability is understood to be exercised and the mechanisms by which accountability is assessed. In this context, two specific themes are particularly important: the help that politicians receive to obtain and understand information on targets and budget figures, and the extent to which accounting cognition impacts on deliberations and debate within the Welsh Assembly.

It is suggested here that for members of the Assembly to be able to engage effectively in monitoring political performance and assessing regulatory accountability, four fundamental requirements need to be satisfied. First, the Assembly member needs to be able to identify, through either his or her own judgement or the help of advisors, the information needed to facilitate an informed debate. Second, the Assembly member must be able to secure or

have access to such information. Third, the Assembly member must be able either to comprehend the information and its implication for a given debate or to secure such advice from others. Fourth, the Assembly member must be prepared to act on the information by mobilising it effectively in the debate. In this chapter, it is taken as given that Assembly members, particularly those from the opposition, would be actively driven to utilise information to make substantive arguments or score political points. It is assumed that they would be seeking to have access to information and to gain as good an understanding as possible of that information in a way that allows them to engage in debate.

Understanding budgets and figures

Civil servants involved in preparing the budget have acknowledged that it may not be easy for the 'uninitiated' to fully understand the figures contained in the budget. For example, one senior civil servant stated that 'there is a limit to how readable and understandable these documents can be'. In justifying the absence of narrative in the budget, he noted a greater preference on his part for numbers compared to narrative, because he perceived figures to instil a sense of certainty not possible with narrative. Whilst acknowledging that budgets may be difficult to interpret, this informant nonetheless bemoaned the lack of interest in budget numbers by politicians.

The extent to which the budgets can be considered 'user friendly' or even 'readable' by politicians depends to a large extent on their own educational backgrounds and experience, as well as on the availability of support from civil servants and colleagues. Those who saw themselves as lacking expertise in financial matters tended to take a defensive posture of denial: the ability to understand budgets and other figures is typically cast as the domain of the 'genius', or those with 'a mathematical mind'. Instead, those members tend to present themselves as being better able to cope with visual, diagrammatic representations.

Demand for information, interpretation and advice

There is unanimous agreement right across the political divide of the Assembly that the quantity, quality and transparency of information is far greater after, compared to before, devolution (see below). But how is the required information produced, made intelligible and acted upon by the politicians? Most members interviewed did not consider themselves to be numerate, hence they tend to seek help from others to interpret the numbers. Our interviews suggest that the extent of help obtained by members of the Assembly with regard to information varied according to whether they were Cabinet members or ordinary members.

Advice to Cabinet members, beginning with the First Minister and cascading down to other ministers, on information and its interpretation is in the

main dependent upon the relationship between politicians on the one hand and civil servants on the other. This is essentially an issue of power relations, with politicians wielding political might, even though civil servants are responsible in the first instance to Whitehall, and civil servants having power over information generation and interpretation. One Cabinet member explained the process through which civil servants advise the Cabinet on policy, expenditure and value for money issues. Civil servants would put out a submission to ministers to continue spending money on a previous programme or to spend the money in a different way. The submission is typically organised through a set format to check issues such as: is the proposal novel? Has it been checked by finance for compliance? Is it a departure from normal procedure? The main motivation for doing this is to draw the attention of ministers to any possible abnormalities.

The two sets of professionals tend to have different cultures or mindsets, which could frustrate their relationships. For many Assembly members, civil servants are presented as the 'ones who actually are seen to control the scenario'. Yet, it is worth noting that, while civil servants can advise, it is up to ministers to make the final decisions. But then, ministers have to be quite certain that they can afford to ignore the advice of civil servants, or else risk political unpopularity if their judgement was found wanting later by the opposition, interest groups, or the electorate.

One senior civil servant explained how he and his department identify the needs of cabinet ministers for information. There is a well established flow of information whereby civil servants produce a consultative annual plan for work programme, which is agreed with ministers, and also agreed as part of the budgeting process within the Assembly. The concern of civil servants as well is to develop an information infrastructure that generates data for historical trend analysis, rather than simply attend to what is identified as the immediate needs of their 'customers'. Ministers have the right and power to prevent civil servants from collecting information that civil servants believe to be valuable but ministers consider to be costly. But if civil servants are sanctioned by ministers to collect certain information, the details of how information is used are left entirely in the hands of civil servants. Apart from the provision of information to ministers, as noted earlier, civil servants provide advice as to how information could be interpreted. Thus, even when certain items of information are classified as 'confidential', they are released to ministers on the grounds that 'advice to ministers is confidential' (Civil Servant). This service is only offered to ministers, but not to backbench members of the Assembly. When considering a specific policy area or issue, ministers frequently require provision of additional, ad hoc information to help in their deliberation without knowing what precise information they need. The civil servants would then take on the burden of identifying what types of information would be helpful to the ministers. Given this control over what is deemed relevant information as well as its interpretation, civil servants have a major impact on political decision making.

Ministers and their senior advisors are given five days (previously it was two days, which was found to be impractical) of advanced sight of any information that would be made part of the public domain. A list is kept of who has had advance sight of such information, although it is recognised that keeping such a list 'in practice is extremely difficult' (Civil Servant). Civil servants come under pressure from ministers to disclose information in certain ways perceived to be favourable to the Cabinet.

There was clear recognition by both ministers and civil servants that information is important ammunition (Burchell *et al.*, 1980; Ezzamel and Bourn, 1990) in the hands of politicians. One Senior Minister noted that in dealings within the Assembly and with Whitehall, detailed justification of figures has to be given. The Cabinet has begun more recently to ask for more analytical interpretation of figures to help with its own deliberations. One Civil Servant pointed to the example of data on why Welsh GDP per head is low, which is not explainable in terms of lower earnings per employee or lower business profits. Rather, he argued that the reason was that a relatively large percentage of the population is not engaged economically, i.e. those who are not in the labour market. The key argument in this context is to improve the health of the nation so that more able people become available on the labour market. Against this is the counterargument that doing so would increase further the level of unemployment in the economy.

One factor that favours civil servants in their power relations with the ministers is specific to the devolution arrangements in Wales. Unlike Scotland who has enjoyed considerable autonomy even before devolution, for example in the legal and educational domains, decisions by the Welsh Cabinet are carefully scrutinised by Whitehall to ensure that they do not depart from Whitehall practice, hence putting greater pressure on Welsh ministers to accede to the advice of civil servants. In the words of one member of the Assembly, coalition party, 'the umbilical cord is still strong actually to Whitehall and that's actually a huge hindrance.'

Information overload and non-executive members of the Assembly

The ability of non-ministerial members of the Assembly, whether from the coalition parties or the opposition, to comprehend and cope with information seems to spread across a spectrum, ranging from those with a strong background in accounting or public service to those who rely in their understanding of information on the help of others, such as the Members' Library and colleagues. The Members' Library is modelled on the Commons' Library and if its staff require further help in obtaining information they do not possess they can seek it from civil servants. Members of the Assembly also have access to the services of clerks. Also, each committee has a research team to help committee members with their work by reading bulk material, interpreting figures and briefing members.

A handful of members have a strong expertise in finance and accounting,

either because of previous professional training in the field or because of long experience in politics or public service. Those members with such a good understanding of figures are like ‘gold dust’ in that not only are their own deliberations in the Assembly informed by such expertise, but perhaps more crucially they are relied upon by less experienced colleagues, within the party, to help them comprehend information. One Assembly member, opposition party, who was at the time Chair of the Education Committee, acknowledged that ‘I am pretty innumerate, so I find the scrutiny of columns of statistics impossible’ but then suggested that he seeks help from others in the same party who are more numerate. Overall, there was a general feeling that Assembly members are under significant time pressure in terms of doing all the necessary readings and interpretations of the myriad of documents they have to deal with. In particular, the committees were acknowledged not to have enough resources to carry on with their duties properly.

Information overload among politicians is thought to be a major problem. Many politicians complained about the huge amounts of information they receive and the little time they have to read bulky documents before relevant committee meetings. Those who feel overwhelmed with the volume of information tend to skip over much of it, thereby possibly significantly compromising the quality of their involvement in political debate.

Conclusions

Ezzamel *et al.* (2007a) noted that an inspection of the budgeting and planning documents of the three devolved UK countries (Northern Ireland, Scotland, and Wales) revealed a definite ‘drilling down’ of ‘nested translations’, beginning with broad, strategic and visionary statements of declared intent on the part of the devolved administration, and ending with achievements against specific targets. This reported set of translations clearly have important implications for the democratic accountability, both regulatory and folk (Garfinkel, 1967) examined in this chapter. In the case of Wales, the vision statement emphasised attaining a modern society, with commitment to public services, in particular schools and hospitals. Such slogan-like statements were then translated into a succession of stages involving: aims, objectives and targets. In this paper, the authors noted how political visions or aspirations took more specific, though still rather broad, meanings when they were first translated into aims for broad policy areas/themes such as education and health. Thus, ‘developing the learning country’ was considered consistent with the aspiration to provide direction for a modern Wales with well supported public services. Second level translations from aims to objectives were similarly broad. In these two levels of translations, numbers were absent as the visions, aims and objectives were all stated exclusively in narrative. Translating and operationalising objectives further involved the formulation of time-bounded and specific targets where numbers became the expression of political commitments. Targets, particularly those stated in

numerical terms, became precise translations of the broad, less differentiating, vision and aims and their delineated measures provided a more specific basis for political accountability. In this sense, the targets stated in the budget documents of the Welsh Assembly provided a visible link back to objectives, aims and ultimately vision. It is the proliferation of these targets in the Welsh Assembly that has been underpinning 'political accountability by numbers'.

Devolution has provided a new discontinuity that heralded a new era of political accountability in Wales. While the concept of political accountability in itself may not have undergone significant changes post-devolution compared to pre-devolution, the cascading of accountability to local/national level has led to its greater intensification. Further, the attributes of the Assembly render it amenable to greater intensification of accountability: production of symbolic information; the risks attached to some of its decisions (for example health); the political nature of the Assembly's objectives (Hannan and Freeman, 1984). In such a climate, it is not surprising for us to observe how politicians across the Assembly have rendered themselves accountable, not only because of statutory requirements (regulatory accountability), but also voluntarily (folk accountability) through open sessions with outside constituencies. The multiplicity of constituencies to which members of the Assembly are held accountable acts in some sense to intensify these forms of accountability, where legal, social, environmental and personal dimensions of accountability are emphasized.

A particularly significant factor that seems to have a notable impact on the discharge of accountability in the Welsh assembly is the near unanimous belief by all members that the Assembly itself and the whole devolution experience is on trial. Given the very low attendance in voting on the devolution referendum, and the remarkably marginal majority supporting devolution, members of the Assembly are in no illusion as to having to prove their added value to the electorate. Hence, efforts to demonstrate rationality of action, integrity, and legitimacy are particularly high on their agendas.

This concern for securing societal legitimacy is evident in several areas. For example, in the effort undertaken by assembly members and committees to demonstrate their regulatory accountability via showing a carefully demonstrated commitment to the formal rules and procedures of accountability enshrined in the devolution programme, seeking to prove transparency in procedures, information gathering and use, and also in the articulation of a seemingly transparent and participative budgetary process. Folk notions of accountability are also present as a means of politicians demonstrating to their own folks their personal sense of accountability and commitment to the delivery of political ambitions to the electorate.

Yet, there is also evidence of decoupling between talk and action, at least in the case of cash budgeting and resource budgeting. Despite formal statements to the effect that the Assembly is beginning to embrace resource budgeting, and numerous arguments attesting to belief in its accuracy, relevance, and

superiority to cash budgeting as a means of informing and monitoring the spending of public money, politicians in the Welsh Assembly seem to be too strongly wedded to cash budgeting to abandon it. Thus, cash budgeting continues to dominate as a means of making decisions involving budget money, because informants suggest politicians identify more with it than with resource budgeting, while resource budgeting is simply used to ensure that the books balance. In this way, politicians continue to use cash budgeting while maintaining their legitimacy by paying lip service to resource accounting.

It is also worth noting that what represents defensible accountability is likely to differ when viewed by different constituencies. Our interviews suggest that the majority of politicians believe that the system of accountability in place is both effective and very transparent. Yet, many civil servants who work for these politicians hold an opposite view, and point to some major weaknesses in the system. Only time will tell quite how this is likely to affect the perceptions of the electorate and their belief in the Assembly's legitimacy. Given the ambiguity and uncertainty of much of the Assembly's activities, coupled with the significant cognition problems for non-specialists in understanding and interpreting the significance of numbers, it may be relatively easy for Assembly members to enhance their claims to rationality and legitimacy in the eyes of external constituencies and the electorate at large, by simply focusing upon the internal consistency of their procedures, rather than necessarily demonstrating the 'Truth' of what they do (Goffman, 1967; Meyer and Rowan, 1991).

Note

- 1 For instance, alternative notions of responsibility and a range of actors, who are engaged in practices of accounting, have emerged following the recent devolution in Wales.

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8 Financial management and democratic accountability

Lessons from New Zealand

Jonathan Boston and Chris Eichbaum

Introduction

This chapter explores some of the efforts to improve democratic accountability in New Zealand since the election of a reforming Labour government in 1984. The primary focus is upon public sector financial management and accountability, but a number of broader public management issues are also considered.

From the perspective of democratic accountability, New Zealand provides a fascinating case study for at least two major reasons. First, the country has witnessed significant constitutional change during the period under examination – change prompted, at least in part, by perceptions that the political executive (i.e. the cabinet) was insufficiently accountable to Parliament and the wider electorate (Vowles *et al.*, 1995). In a binding referendum in late 1993 voters rejected the long-standing ‘first past the post’ (or simple plurality) system in favour of a new, mixed-member proportional (MMP) system based largely on the German model. The first MMP election was held in October 1996. Thus, in recent decades New Zealand has experienced two fundamentally different electoral systems, each with its distinct political imperatives, governmental forms and inter-party relationships. In effect, it has moved from a British-type adversarial, two-party system characterised by strong, single-party majority governments to a more Scandinavian-oriented, consensual, multi-party system characterised by mainly multi-party, minority governments. Without question this has significantly affected accountabilities within the political system. Parliament now exercises greater leverage over the executive and has a greater capacity to hold the executive to account than was hitherto the case.

Second, as part of a wider suite of reforms to the system of public sector management during the mid-to-late 1980s, a new financial management system was instituted (see Boston *et al.*, 1991, 1996; Scott *et al.*, 1990). This involved not merely accrual accounting, but also an output-based (rather than input-based) system of appropriations, the application of capital charges to most public sector organisations and a distinction (for the purposes of resourcing, monitoring and accountability) between the Crown’s ‘ownership’

and ‘purchase’ interests. During the 1990s, this new financial management system, along with many other aspects of the ‘New Zealand model’, as it became known, attracted world-wide attention and acclaim – and prompted a significant degree of emulation, at least within the OECD (Boston, 1996). The core elements of the new regime, and the principles underpinning it, have remained largely unchanged since the late 1980s. Nevertheless, various concerns and criticisms prompted some important modifications during the first few years of the twenty-first century, and further evolutionary developments are likely.

This chapter begins with a brief account of New Zealand’s constitutional arrangements and governmental system. The chapter then explores the purpose, nature and implications of the financial management changes within the central government since the late 1980s. Following this, the chapter briefly outlines the budgetary process, including parliamentary scrutiny of the budget and departmental performance. Finally, we conclude with some reflections on the key lessons that arise from New Zealand’s experience.

Constitution and system of government

New Zealand is one of only three nations without a single codified constitution (the other two being the United Kingdom and Israel). Described as open-textured, fluid and iterative, New Zealand’s constitution is to be found in a number of sources, including legislation, decisions of the courts, the Treaty of Waitangi (a Treaty reached between the British Crown and chiefly representatives of New Zealand’s first peoples, the Māori, in 1840), constitutional conventions of various kinds (including those relating to individual and collective ministerial responsibility), and international law (Keith, 2001; Palmer and Palmer, 2004). The principal formal statement is the Constitution Act 1986, which specifies the various branches of government and their interrelationship. New Zealand is a Westminster parliamentary democracy with a unicameral Parliament (Patapan *et al.*, 2005). Consistent with the Westminster model the members of the political executive (the Cabinet) are drawn from the Parliament, with the Prime Minister as Head of Government typically the leader of the party (or the dominant party in a coalition) that commands a majority of votes in the Parliament. (Prior to the introduction of the MMP electoral system governments were typically of the single-party majority kind; since the advent of MMP majority or minority coalition governments have been the norm). One significant constitutional principle reflected in the Constitution Act – and central to the issues traversed in this chapter – is Parliament’s paramount role in controlling public finance. The Crown (in effect the executive government of the day) may not levy taxes, raise loans, or spend public money except by or under an Act of Parliament (Section 22, Constitution Act 1986).

So while, as is typically the case within Parliamentary systems, the doctrine of the separation of powers is compromised by the fusion of the legislative

and executive branches, in terms of the appropriation and expenditure of public monies, it is the former that holds the latter to account. That is both an aspect of New Zealand's constitutional arrangements, and a central feature of the institutional architecture relating to public finance. Moreover the function of the legislative branch in this respect is evidenced in the status and role of one of the Officers of the New Zealand Parliament, that of the Controller and Auditor General.

The Controller and Auditor General, appointed by the Governor General on the recommendation of the Parliament for a once-only term of not more than seven years, is independent of executive government and accountable to the Parliament. As the title suggests the office comprises two functions, that of 'Controller' and that of 'Auditor General'. In terms of the former, the Controller provides independent assurance to Parliament that expenses and capital expenditure of departments and Offices of Parliament have been incurred for purposes that are lawful, and within the scope, amount and period of the appropriation or other authority. The second function involves the audit of all types of public entity, including the Crown, government departments, Crown entities, state-owned enterprises, local authorities and their subsidiaries, and statutory boards and other public bodies. In auditing these entities there are five key concerns central to the role – performance, authority, waste, probity and accountability.

The public sector and the public service

The span of the Controller and Auditor General's audit function extends to the New Zealand public sector – this includes both central and local government. Central government continues to be the dominant player in terms of the two principal levels of government within New Zealand, with the legislative framework for the local government sector established by way of legislation passed by the New Zealand Parliament. While, as a result of a Local Government Act passed in 2002, the local government sector has been granted 'powers of general competence', the sector in New Zealand does not enjoy the constitutional recognition or powers that one sees in some other jurisdictions. Moreover, the authority to tax is the exclusive province of central government, with local government limited to funding on the basis of 'rates' (effectively a tax on the value of property).

In terms of the institutional structure of central government, in 2007 the central government bureaucracy in New Zealand consisted of thirty-five departments (including three central agencies), twenty state-owned enterprises, three Offices of Parliament (the Office of the Ombudsman, the Parliamentary Commissioner for the Environment and the Office of the Controller and Auditor General), and around 2,800 Crown entities (now grouped into Crown agents, autonomous Crown entities, independent Crown entities, Crown entity companies, Crown entity subsidiaries, school boards of trustees and tertiary education institutions). There are six non-public service

departments (the New Zealand Defence Force, the New Zealand Security Intelligence Service, the Parliamentary Counsel Office, the New Zealand Police, the Office of the Clerk, and the Parliamentary Service), and a number of miscellaneous organisations listed in the Fourth Schedule of the Public Finance Act. New Zealand's central bank – the Reserve Bank of New Zealand (which is operationally independent of the government of the day) – completes the New Zealand state sector. Staff numbers have increased in recent years, and as at 30 June 2006 there were 40,113 staff employed in the core public service, as compared to 29,643 as at 30 June 1999. (The core public service consists of the thirty-five departments referred to above. These departments are named in the First Schedule to the State Sector Act 1988.)

Consistent with the defining features of the Westminster system of government, New Zealand's public service operates on the basis of political neutrality, required to provide the government of the day with free, frank and comprehensive advice in the context of the government's electoral mandate, but required also to possess the requisite capacity and capability to serve future governments, whatever their philosophical disposition or ideological composition.

Public sector financial management

In response to New Zealand's low economic growth and related fiscal problems, the fourth Labour government elected in mid-1984 embarked upon a series of radical economic, social and public sector reforms (see Bollard, 1992; Boston *et al.*, 1996, 1999; Easton, 1997; James, 1993; Kelsey, 1995; Norman, 2003; Scott, 2001). As noted earlier, the focus of this chapter is on the changes in public sector financial management, but it is important to bear in mind that these changes were an integral part of a wider programme of public sector reforms – including changes to human resource management, performance management, institutional design, corporatisation and privatisation – all of which were designed to enhance efficiency, effectiveness and accountability. These reforms, in turn, were inspired by, and a key component of, the government's broader agenda of economic liberalisation.

With respect to public sector financial management, the period since the mid-1980s has witnessed two distinct phases of reform. The first, and most significant, phase involved the passage of the landmark Public Finance Act (1989) (with significant amendment Acts in 1992 and 1994) and the Fiscal Responsibility Act (1994). The second involved the passage of four Acts in late 2004: the Public Finance Amendment Act 2004, the State Sector Amendment Act (No. 2) 2004, the Crown Entities Act 2004, and the State-Owned Enterprises Amendment Act 2004. The latter phase of reform was designed partly to address various problems generated by, or associated with, the changes instituted in the late 1980s and partly to complete some unfinished business, especially with regard to the management and accountability of Crown entities.

Phase 1

Prior to the late 1980s, the system of financial control in New Zealand's central government was focused on the annual cash cost of inputs, categorised in terms of personnel, travel, maintenance and materials, with the annual Estimates structured primarily along programme lines. Departments were subject to detailed Treasury controls and had limited financial discretion. The emphasis on the cash cost of inputs and the relative absence of meaningful performance measures resulted in departmental managers focusing upon their compliance with legal obligations and budgetary constraints rather than the effective and efficient management of resources. While various efforts had been made to reform the system of public finance between the late 1960s and the early 1980s – including the loosening of controls over inputs and the provision of bulk budgets and revolving funds – only limited progress was achieved. In part this was due to the failure to develop appropriate performance measures and to integrate corporate planning and resource allocation processes.

Against the backdrop of the wider economic reform programme that was then gathering momentum, the Treasury proposed in briefing papers in late 1987 that the Labour government undertake a radical overhaul of the system of financial management. Starting from the premise that effective parliamentary control over public finance was of fundamental constitutional importance and that the political executive was responsible for determining departmental objectives, the Treasury recommended a public management system based on five interrelated and mutually reinforcing principles (as summarised in Boston *et al.*, 1996: 262–263):

- 1 *a clear specification of the objectives* for which managers are responsible and an avoidance of multiple and conflicting objectives where possible;
- 2 *freedom to make resource allocation decisions* on a basis that enables the most efficient attainment of objectives;
- 3 *accountability*, i.e. incentives and sanctions in place to modify the behaviour of managers to ensure that they meet established objectives rather than pursuing independent goals of their own;
- 4 *effective assessment of performance* so that managers could be held accountable. In particular, a distinction should be made between results of management and results stemming from external factors over which managers have no control; and
- 5 *a sufficient quantity of information* to make performance assessment possible.

In relation to the specific mechanisms of financial management, the proposed framework involved the following core elements:

- a distinction between *inputs* (i.e. labour, materials, etc.), *outputs* (i.e. the

goods and services produced by departments, such as policy advice, the provision of correction services and the administration of transfer payments) and *outcomes* (i.e. the impacts of governmental activities on the society and economy, such as a lower crime rate and improved health status);

- a change from a programme-based to an output-based appropriation system (with a separate appropriation for each class of outputs which must be based on a full-cost basis), and a related shift from input controls to output specification, monitoring and assessment;
- the introduction of an accrual-based system of budgeting and accounting;
- a distinction between Crown and departmental cash flows, assets and liabilities;
- a distinction between the Crown's 'ownership' and 'purchase' interests;
- the introduction of capital charges for most public sector agencies;
- improved departmental reporting to the government and Parliament, including the provision of statements of service performance in departmental annual reports which compare the outputs produced with those intended (as specified in the budget documents);
- the introduction of monthly Crown financial statements on an accrual basis (similar to those for departments) including a consolidated balance sheet and an operating statement for the whole of the state sector; and
- a new accountability regime under which departmental chief executives (formerly known as 'permanent heads') would be responsible for financial management and held to account via detailed performance agreements and purchase agreements with their relevant minister(s).

Conceptually, it was envisaged that under this new regime – which was embodied in the Public Finance Act (1989) and implemented with remarkable speed – ministers would determine the government's outcomes and then purchase the outputs they desired to achieve these specified outcomes. The selected outputs would be specified in terms of the required quantity, quality, price, timing of delivery and other relevant considerations. This approach reflected a rather different notion of the relationship between departments and ministers than had hitherto been assumed. Inspired by the new institutional economics, most notably agency theory, the relationship in question was viewed as *contractual* – with two types of contract in operation, reflecting the different relationships between ministers and their respective departments. On the one hand, ministers were regarded as the *purchaser* of outputs from departments (or, potentially, from other providers). On the other hand, they were viewed as the *owner* of the agencies for which they were responsible. As owners, it was envisaged that ministers would wish to secure the best possible return on the assets invested in these agencies. This goal, of course, might well conflict with their desire to minimise the cost to taxpayers of the goods and services the agencies were required to provide.

The distinction between the purchase and ownership interests of the

government generated some important policy implications. At the ministerial level, for instance, it led in some cases to a separation of the responsibility for the purchase of departmental services from the responsibility for the ownership of the agencies providing the services. Thus for a period of time, there was a Minister of Health, who was responsible for the purchase aspects of the health portfolio, and another Minister who was responsible for the ownership aspects (i.e. the assets of the public providers of health services, known then as Crown Health Enterprises). In terms of financial management and reporting there were also significant implications. For instance, the Crown bank account (operated by the Treasury) was distinguished from individual departmental bank accounts; certain assets (e.g. national parks) were deemed to be owned by the Crown and merely managed by the relevant government agency (i.e. the Department of Conservation) and hence to be excluded from departmental balance sheets; and certain revenues and expenditures, such as transfer payments and taxation receipts, were identified as belonging to the operating statement of the Crown rather than of the relevant departments (see Boston *et al.*, 1996: 264).

Under the Public Finance Act (1989) the Treasury is required to prepare consolidated annual and half-yearly financial statements for the Crown in accordance with generally accepted accounting practices. For their part, departments, offices of Parliament and Crown entities are required to prepare annual financial statements (also in accordance with generally accepted accounting practices). Such statements must include, amongst other things, a statement of financial position at balance date, an operating statement (reflecting revenue and expenditure for the year), a statement of cash flows, a statement of objectives, a statement of service performance and comparative actual figures for the previous financial year.

While the Public Finance Act (1989) brought fundamental changes to the system of appropriations and departmental financial management, it did little to enhance the government's overall *fiscal* accountability to Parliament or the strategic coherence of the annual budget process. In particular, it did not require governments to make transparent their medium-to-longer-term fiscal objectives and report progress towards achieving these objectives; nor did it impose any obligations on governments to pursue 'responsible' fiscal policies. Prompted partly by continuing, and relatively large, fiscal deficits – and hence rising public indebtedness – and partly by the Labour government's efforts during the 1990 election campaign to conceal the grim state of the finances of the nation's largest trading bank (the Bank of New Zealand), the newly-elected National government introduced legislation in 1993 to improve the level of the Crown's fiscal disclosure and enhance responsible fiscal management. Underpinning the Fiscal Responsibility Act, enacted in 1994, were five principles of responsible fiscal management (see Section 4(2)):

- 1 reducing total Crown debt to prudent levels by achieving operating surpluses every year until a prudent level of debt has been attained, thereby

providing a buffer against factors that may impact adversely on the level of total Crown debt. (The Act does not define or prescribe what is meant by 'prudent', but a broad political consensus emerged during the late 1990s that the longer-term aim should be to reduce gross sovereign-issued debt to around 20 per cent of GDP. Gross sovereign-issued debt has fallen relatively steadily since the mid-1990s to under 25 per cent of GDP, and was forecast by the Treasury in late 2006 to be 20.7 per cent of GDP in 2010/11);

- 2 maintaining total Crown debt at a prudent level by ensuring that, on average, over a reasonable period of time, the total operating expenses of the Crown do not exceed its total operating revenues. In effect, this means that governments should seek to ensure that they achieve a broad fiscal balance over the course of a typical economic cycle;
- 3 achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future;
- 4 managing prudently the fiscal risks facing the Crown; and
- 5 pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

The Act provides for a government to depart temporarily from these principles, but if it does so, it must publicly justify its actions and indicate how and when it will return to compliance with the principles. Thus far all governments since 1994 have pursued fiscal strategies in accordance with the provisions of the Act.

In addition to enunciating principles of responsible fiscal management, the Act also provides for improved financial reporting to Parliament. First, the Act requires governments to publish a *Budget Policy Statement*, no later than 31 March each year, setting out its long-term fiscal objectives. In so doing, the government must specify whether these objectives are consistent with the principles of responsible fiscal management and previous budget policy statements, and disclose and explain any departures from them. Second, when the annual budget is presented (which must occur before 31 July), the government is required to publish a *Fiscal Strategy Report*. This report must provide projections regarding total revenue, expenditure, debt and net worth over the following ten or more consecutive financial years, and assess whether the trends and updates are consistent with the previous budget policy statement. Third, at the time of the annual budget the government must present an *Economic and Fiscal Update* containing economic and fiscal forecasts for the current year and each of the following two financial years. A half-yearly *Economic and Fiscal Update* is also required prior to the end of each calendar year. Finally, in the interests of improving the quality of economic information available during election campaigns, the Act requires the government to publish a *Pre-Election Economic and Fiscal Update* between 28 and 42 days prior to polling day. Each economic and fiscal update must be accompanied

by a statement of responsibility signed jointly by the Minister of Finance and the Secretary to the Treasury.

It is important to recognise that the Fiscal Responsibility Act does not embrace mandatory fiscal targets or caps (e.g. for revenue and/or expenditure) of the kind advocated by some fiscal conservatives. Accordingly, there is no fiscal constraint upon the size or role of the state. Similarly, the Act does not represent a formal 'fiscal constitution'; it is an ordinary statute. The government's fiscal actions are thus potentially subject to judicial review, but so far no cases have been brought before the courts and none seem likely.

The first phase of New Zealand's financial management reform programme, together with the wider public sector reforms, generated a variety of internal and external evaluations, and a range of assessments – from strongly positive to moderately critical (see Boston *et al.*, 1991; 1996; Controller and Auditor General, 1996, 1999, 2001; Gregory, 2000; Logan, 1991; Petrie and Webber, 1999; Pallot, 1998; Review of the Centre, 2001; Schick, 1996; State Services Commission, 1998a, 1998b). In our view, the evidence clearly suggests that the Public Finance Act (1989) and Fiscal Responsibility Act (1994) yielded significant gains and represented a marked improvement on the former relatively centralised, input-driven and rule-bound financial management regime. This assessment, incidentally, is widely shared by the many parliamentarians and senior officials who have been canvassed for their views since the early 1990s. Indeed, while some of the changes to public management during the mid-1980s to mid-1990s attracted understandable criticism (e.g. the excessive amount of organisational restructuring, and the negative social impact of the corporatisation programme), the financial management changes generally attracted positive assessments.

The main gains have included: an enhanced capacity by governments to control public expenditure; more efficient and effective management of departmental resources; a stronger integration of planning and budgeting; improved incentives for, and better defined notions of, departmental performance; greater managerial accountability at the departmental level; major improvements in the amount, type and quality of financial (and other) information available to the executive, Parliament and the wider public – and hence a greater capacity to monitor and assess departmental performance, as well as better information for policy-making purposes. Further, there is a general acceptance that the move to accrual accounting (notwithstanding its more limited applicability to the public sector as compared with the private sector) has provided a better indication than the previous cash-based system of the longer-term commitments of departments and the Crown. Moreover, the publication in 1992 of New Zealand's first accrual-based government financial statements represented an important advance in terms of financial transparency and accountability.

Additionally, there can be little question that the Fiscal Responsibility Act has contributed to a more disciplined approach to fiscal management and has resulted in governments giving greater attention to longer-term fiscal issues

and broader questions of fiscal strategy. Significantly, since the passage of the Act, New Zealand has recorded continuous fiscal surpluses – after two decades of often large annual fiscal deficits. Admittedly, the period since 1994 has been characterised by relatively favourable macroeconomic conditions, with robust economic growth and falling unemployment. The long legacy of deficits and rising public debt also contributed to the current multi-party consensus in favour of fiscal prudence. Nevertheless, the Act has almost certainly been helpful in reinforcing this consensus, all the more so given the potentially destabilising impact of electoral reform in 1996.

Against this, the first phase of the financial management reforms also generated a raft of criticisms and concerns (see Boston *et al.*, 1996; Schick, 1996; Newberry, 2006; Newberry and Pallot, 2006). Prominent amongst these were the following: the high compliance costs associated with the new reporting and accountability mechanisms (which included purchase agreements, departmental forecast reports, Chief Executive performance agreements, statements of objectives and annual reports); the relatively large number and complex structure of appropriations; undue constraints on managerial autonomy arising from very tight specifications of outputs, thereby generating a system of ‘accountability by specification’ (Schick, 1996: 84); concerns about the pricing of outputs, especially in the absence of an external market for many of the goods and services supplied by public agencies, the difficulties of allocating certain costs between outputs and the questionable merits of applying capital charges to certain types of outputs; a tendency for the government’s purchase interest to dominate over its ownership interest, thereby putting at risk the long-run capability of the public sector; concerns about the adequacy of the contracting, monitoring and accountability arrangements for outputs supplied by organisations other than departments (especially Crown entities); question marks over the capacity of, and analytical support for, Parliament to make the most effective use of the new information available for scrutinising the executive; and a potential weakening of the controller function exercised by the Auditor General.

Three other concerns deserve particular attention. A broad consensus emerged by the mid-to-late 1990s that the financial management reforms of the late 1980s had placed too much attention on departmental *outputs* and an inadequate emphasis on *outcomes*. In other words, there was an excessive focus on the *means* or techniques of governing and too little on the *ends* – what governments were trying to achieve and whether they were being successful. In many ways this result was perfectly understandable. Outputs are generally easier to define, specify and measure than outcomes. They are, accordingly, a better target for funding and accountability purposes – and hence were the preferred choice of those who designed the Public Finance Act (1989). Further, while departments can be readily held to account for delivering certain outputs (i.e. assuming that they are adequately resourced), it is much less reasonable to hold them to account for achieving particular outcomes. After all, many outcomes require co-ordinated action by multiple

agencies in order to be achieved, there are often long time lags between interventions and the achievement of the desired outcomes, and most outcomes are influenced by a multiplicity of factors, many of which are beyond the immediate or direct control of government agencies. For such reasons, the Public Finance Act (1989) made departments responsible for the delivery of outputs but not outcomes. Likewise, while departments were required to report to Parliament on their performance in producing the outputs for which they were funded, they were not obliged to report on how these outputs contributed to the government's desired objectives or outcomes or why such outputs were being funded (i.e. the intervention logic underpinning their selection). Nor were departments required to report on matters relating to organisational capability or their contribution to the collective interests of the government.

If there are good reasons why departments should not be held directly accountable for outcomes, there are also powerful incentives in a democracy for ministers to avoid commitments to tightly-defined policy objectives or outcomes. After all, where outcomes are clearly specified yet not achieved (or at least not achieved within the stated timeframes) governments expose themselves to easy attack by opposition parties. Considerations of this kind led governments in the late 1980s and early 1990s to reject advice that the Public Finance Act should include obligations for ministers to report on outcomes (or possibly the performance of the overall system or the achievement of strategic goals). Yet any system which focuses upon outputs at the expense of outcomes runs certain risks. For instance, it can strengthen the natural tendency of departments to focus on narrow, particularistic objectives at the expense of the wider collective interest, inter-agency collaboration and whole-of-government approaches. It can also result in an undue emphasis on short-term considerations, insufficient attention to the needs of clients and citizens, and contribute to a compliance culture (or tick-box mentality). The problem, of course, is how to design a financial management regime that gives sufficient attention to both outputs and outcomes.

This leads to a second concern. Conceptually, the new approach to financial management – and public management more generally – assumed that ministers were independent and discerning ‘purchasers’, capable of specifying their desired outcomes and selecting the appropriate outputs to achieve these outcomes, and actively engaged as ‘principals’ in holding their departmental ‘agents’ to account. Experience suggests that such assumptions were not well founded. Indeed, as the Rt Hon Simon Upton, the Minister of State Services in the National-led government in the late 1990s, has commented:

The theory . . . relies heavily upon Ministers playing their role as principals in a contractual regime comparable to a marketplace. We are expected to be energetic and well-informed purchasers, monitoring output delivery and bringing particular sanctions and pressures to bear as required. The reality is far from a market model. It is characterised more

by monopoly supply, compliant demand, arbitrary prices and asymmetry of information. Some of the more obvious assumptions of the model that do not fit with reality include:

- 1 The view that alternative suppliers exist for the delivery of core government services. The simple reality is that Ministers do not stop purchasing from one department and actively look to purchase the same service from another.
- 2 The view that departments and Ministers religiously adjust quantity and quality dimensions in their purchase agreement in response to changing resource levels and changing third party demand.
- 3 The view that cash will not be disbursed to the department if output targets are not met and that purchase agreements are sufficiently specified to allow this anyway.
- 4 The assumption that there are still incentives for chief executives to generate and disclose productivity gains where these are simply returned to the Crown through the current surplus management regime.
- 5 The assumption that, at any point in time, departmental capability exists to deliver on priorities for the government of the day.
- 6 The gross assumption that departments can always continue to re-prioritise within baselines without affecting organisational capability and the equally absurd assumption that productivity gains can be extracted centrally through across-the-board budget cuts . . .

It is a bold leap of faith to assume that Ministers cheerfully fulfill all of the requirements of the current public management system. In the same way that the incentives regime facing chief executives is more assumption than practice, I suspect that the case for Ministers is generally the same.

(Upton, 1999: 12)

Accordingly, Upton urged the public service to 'acknowledge the divergence between the theory and reality' and to 'address the systemic gaps that exist from a longer run ownership and capability perspective' (Upton, 1999: 13). Efforts to address such gaps have been a key focus of the second phase of reform.

Upton's perceptive comments highlight a third issue: the resourcing and capability of the public sector. As noted, the new financial management system facilitated greater fiscal discipline and provided governments with new tools for cutting and redirecting public expenditure; it did not, however, guarantee that departments would be adequately funded to provide the outputs they were contracted to deliver. During the 1990s, the National-led government sought to reduce expenditure on the core public service and encourage greater private provision of publicly-funded services. By the end of the decade, there was increasing evidence that many departments had been cut to the bone and that scope for further efficiencies was extremely limited. It

was also evident that some departments were struggling to fulfill the expectations of ministers and citizens with the resources at their disposal. A series of high profile incidents in the late 1990s involving the failure of certain departments and agencies to meet public expectations (e.g. regarding the safety of their facilities and the quality of publicly-funded services) resulted in growing political pressure for increased governmental investment in public sector capability (see Gregory, 2000).

Phase 2

Since the mid-to-late 1990s various efforts have been made to address some of the weaknesses evident in the public management system implemented during the preceding decade. These efforts, which have been incremental, evolutionary and developmental in character rather than radical or far-reaching, received added impetus with the election of a Labour-Alliance (centre-left) minority government in 1999 that was committed to strengthening and reinvigorating the public service. With respect to financial management, and public sector accountability more generally, a number of specific developments deserve mention.

In 2001 the new government established an Advisory Group to undertake a review of state sector performance. Included in the terms of reference for this 'Review of the Centre', as it became known, were the following issues:

- whether vote structures and vote management processes could be altered to improve fiscal decision-making and financial management across government, while being compatible with, and facilitating, other desired changes in public sector management;
- whether the focus on contracts for accountability has led to a legalistic focus with excessive compliance costs, or a loss of collegiality;
- whether a focus on narrow performance goals has led to insufficient attention to outcomes, a lack of connection between outputs and outcomes and a reduced focus on the importance of maintaining long-term capacity.

In line with previous reviews, the Advisory Group concluded that 'the current public management system provides a reasonable platform, but needs significant shifts in emphasis to meet more effectively the needs of Ministers and citizens' (Review of the Centre, 2001: 6). It identified three main areas for attention:

- achieving better integrated, citizen focused, service delivery, particularly where complex social problems are dealt with by multiple agencies, making sure the system is focused on the results that citizens and governments want in terms of outcomes and services;

- addressing fragmentation/improving alignment particularly through: improving emphasis on outcomes; developing more effective, higher trust means of working together; harnessing technology; re-examining the large number of agencies and votes, the tendency to emphasise vertical accountabilities rather than whole-of-government interests; and
- enhancing the people and culture of the state sector, particularly building a strong and unifying sense of values, staff and management development, and meaningful opportunities for collective engagement in organisational decisions (Review of the centre, 2001: 6).

The Review of the Centre prompted a series of policy initiatives by the government including the introduction of legislation – the Public Finance (State Sector Management) Bill (2003) – designed, in the words of the Minister of Finance, to ‘strengthen the public service, make it more transparent and flexible, allow a more integrated response to complex social problems involving a number of state agencies and invigorate the culture of the state sector’ (Cullen, 2003). The Bill resulted in amendments to three existing Acts (as noted earlier) and the passage of a new Act, the Crown Entities Act (2004). All four Acts came into effect on 25 January 2005.

In brief, the various amendments to the Public Finance Act and the Fiscal Responsibility Act were designed to improve the flexibility for the executive in managing public finances, while retaining and improving accountability mechanisms to Parliament – although the extent to which these latter objectives are being achieved has been the source of some debate (see Newberry and Pallot, 2006). Largely for political reasons, the Fiscal Responsibility Act was incorporated into the Public Finance Act and no longer exists as a statute in its own right. Amendments to the State Sector Act focused on extending the State Services Commissioner’s mandate to incorporate the wider state sector (as distinct from the core public service). These changes were seen as being central to strengthening integration, building capability and providing stronger leadership on values and standards in the wider state sector. The purpose of the Crown Entities Act is to improve Crown entity governance and accountability and in so doing achieving better alignment between Crown entities and government objectives. It is also designed to enable more effective whole-of-government co-ordination with the better integration of Crown entities into the rest of the state sector.

Recognising the need for a stronger *outcome* focus to departmental planning, management and reporting, the Labour-Alliance government also embarked upon a ‘Managing for Outcomes’ (MfO) initiative (see Ryan, 2002, 2006; Cook, 2004). The goals of this initiative have been neatly summarised by the State Services Commission (2005):

In practice, managing for outcomes means focusing on outcomes (results) in every aspect of management. Organisations that are managing for outcomes:

- have a clear vision of why they exist, what they want to achieve and how well they are achieving against this;
- plan their work keeping in mind a clear set of objectives, activities, outputs, outcomes and measures of success;
- deliver what they have planned, and in a manner that is consistent with public service ethics, values and standards while meeting standards of timeliness, quality, accuracy, etc;
- take stock of their progress by monitoring, measuring, reviewing and evaluating as they go;
- learn from success and failure and modify what they do and how they do it in response;
- report publicly on their results, promoting transparency to Parliament and the public and providing a basis for dialogue about future decisions; and
- have an adaptive and innovative culture and seek continuous improvement.

In terms of reporting requirements, MfO has resulted in annual departmental Purchase Agreements (through which departmental outputs and their associated performance measures were specified) being replaced with Output Plans from the beginning of the 2003–2004 financial year. While Output Plans have not significantly changed how outputs are specified or how the relevant public funding is appropriated, they do require departments ‘to place outputs within a wider context, encourage improved planning for results and incorporate information about third party outputs. Output plans place much greater emphasis on the connection between outputs and the achievement of outcomes’ (State Services Commission, 2002). Likewise, Departmental Forecast Reports (as well as Chief Executive Performance Agreements) were replaced with departmental Statements of Intent (SOIs). These latter documents have a medium-term (three-year plus) focus and identify departmental intentions regarding strategy, capability and performance. They also include the annual statements required under the Public Finance Act, which are used by departments’ auditors as the basis against which departments’ annual financial statements are audited.

Under the new financial management regime departments are not held directly accountable for achieving specific outcomes (i.e. because of the inherent difficulties in trying to determine and attribute causality for their achievement). However, departmental chief executives are accountable for assisting their ministers to decide such matters as: which outcomes should be pursued (and how they should be prioritised); how best to achieve these outcomes (in terms of a clearly specified intervention logic, based on evidence of effectiveness and efficiency); how to measure progress towards their realisation; and how to manage the major risks associated with the achievement of the selected outcomes. Chief executives are also accountable for managing their department’s capability appropriately so that they are able to deliver the

agreed intervention mix and to liaise with other organisations that contribute to similar or related outcomes.

There has, to date, been no comprehensive assessment of whether the changes introduced during 2002–2005 have achieved their goals. Moreover, the application of MfO, especially in the Crown entity sector, is so recent that it is too early to undertake a proper evaluation. Nevertheless, a number of broad observations can be made. First, the second phase of the reforms has resulted in a wider range and more nuanced kinds of information becoming available to Parliament and the wider public on the rationale for, and success in achieving, particular outcomes. To what extent Parliament will use this information to hold the executive to account remains to be seen.

Second, as many expected, implementing MfO has posed a variety of political, conceptual and practical difficulties. One of these is the issue of delineating the different tiers of possible outcomes (e.g. the ultimate outcomes desired by government and the lower-level or intermediate outcomes that may contribute to these higher order outcomes) and establishing the relevant causal connections between departmental outputs and outcomes (and the different tiers of outcomes). A recent brief review of departmental practice since the MfO initiative took effect suggests a degree of ‘patchiness’, with ‘a “black box” in many agency plans and strategies between planned agency action and societal effect’ (Ryan, 2006: 44). Likewise, there is a lack of ‘understanding of who and what “the client” is or how, why and when they act as they do’, and inadequate attention to the role of ‘ordinary people’ as co-producers of outcomes (Ryan, 2006: 44; see also Parker and O’Leary, 2006).

The success of any MfO-type scheme, of course, depends in part on the willingness of governments to be explicit about their real intentions and their priorities. For if the government’s strategic objectives are unclear, departments and agencies will struggle to identify appropriate contributory outcomes and ensure that there is a strategic alignment between their outputs and the government’s desired outcomes. Since the early 1990s, New Zealand governments have pursued a variety of approaches to strategic planning, all thus far of limited success. For its part, the current Labour-led government chose three priority themes for the 2005–2008 parliamentary term – ‘economic transformation’, ‘families – young and old’ and ‘national identity’ (Department of Prime Minister and Cabinet, 2007). These priority themes were elaborated upon via a series of sub-themes and explanatory text, thereby extending the overall range of policy domains of potential relevance to the priorities in question. Departments were asked to take the three themes (and related sub-themes) into account when developing their SOIs for 2006 and to consider how their activities and baselines could be aligned in order to support the themes. As might be expected, this task was easier for those departments undertaking activities that are clearly connected to one or more of the themes in question. Further, most departments struggled to ascertain how their activities contributed to the theme of ‘national identity’

and its four, open-ended sub-themes: 'who we are', 'what we do', 'where we live' and 'how we are seen by the world'.

Another difficulty is that government's priorities change, sometimes significantly and unpredictably. Hence, although the Labour-led government set its three priority themes in late 2005, by late 2006 it was already evident that another theme – sustainability, and in particular addressing climate change – was emerging as the government's core area of concern and a key focus for political differentiation. While environmental sustainability had been identified as one of the five sub-themes of 'economic transformation', it had not received a high priority. Coping with rapid changes in governmental priorities will no doubt remain a key challenge for departments as they grapple with their new responsibilities and accountabilities under the MfO initiative.

The budgetary process

The executive phase

New Zealand's budgetary process can be characterised as consisting of two phases – an executive phase and a legislative phase, as illustrated in Figure 8.1 (Boston and Church, 2002). In broad terms the first of these, the executive element of the process, is in three parts – a strategic phase, an initiatives phase and a production phase.

The strategic phase involves two elements, a ministerial strategy and planning phase which is undertaken by ministers, their offices and their departments, and a government strategic phase which covers ministers' development of an overall strategy for the budget (Treasury, 2006). The government strategic phase allows for consideration of all of the 'building blocks' of a budget, including:

- fiscal objectives
- top-down pressures and constraints
- bottom-up pressures
- the amount of funding available for new initiatives
- theme objectives and priorities, and
- the process and timetable for developing the budget.

(Treasury, 2006)

While the executive phase differs from year to year – and as we note below has recently been modified to provide for improved alignment between the key government goals discussed above (or budget themes) and budget decisions – a review of budget processes over the past decade (i.e. the post-MMP period) identifies a number of common features (Boston and Church, 2002: 25–26).

Around September of each year the strategic or broad priority setting phase commences, coinciding with the close of the legislative phase of the budget introduced approximately three months earlier (see below). Government

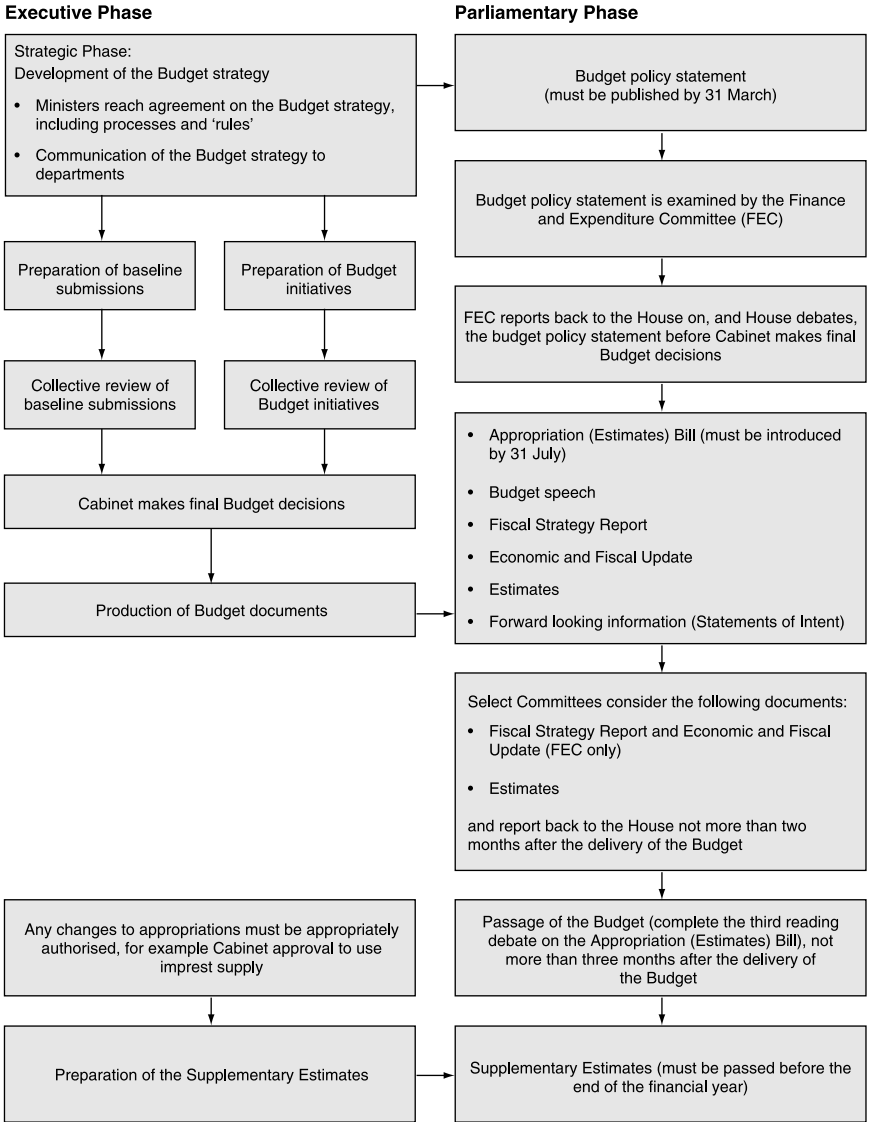


Figure 8.1 The two phases of the Budget Process.
Source: Treasury (<http://www.treasury.govt.nz/budgets/process/>)
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departments and agencies update their baselines (i.e. expected expenditure, based on various assumptions and existing policy settings, but with no allowance for inflation), and this forms the basis of the half-year (December) Economic and Fiscal Update required under the provisions of the Public Finance Act, and to which we referred above.

Second, between September and November the Cabinet considers the relative importance of the outcomes the government wants to achieve. During this period the Treasury prepares a report for the Minister of Finance. In recent years this has been in the form of a Budget Strategy providing a high-level framework for assessing budget initiatives. Usually agreed by the Cabinet in November or December, it sets out:

- the government's fiscal objectives and management approach;
- the themes and priorities for the budget and how they relate to previous and future budgets;
- the economic and fiscal outlook and the amount of funding available for new spending;
- allocations for each theme;
- whether allocations for specific Votes or areas of spending will be used;
- the budget timetable and processes.

(Treasury, 2006)

Third, as noted earlier, under the Public Finance Act the Government is required to publish a Budget Policy Statement (BPS), (one of two annual documents required under the Act, the other being the Fiscal Strategy Report). The BPS is required to be tabled in Parliament no later than 31 March, but is typically published alongside the half-year Economic and Fiscal Update. (In 2006 the BPS and the half-year Economic and Fiscal Update were conjointly published on 19 December.) The BPS sets out the broad strategic priorities for the budget, including overarching policy goals, particular areas of focus over the short-to-medium term, and long-term fiscal objectives.

Fourth, around November, following the Cabinet's approval of a set of budget guidelines, Ministers and departments prepare draft budgets for each of their votes, along with new spending proposals. Between February and April the Cabinet considers changes to baselines where these are the product of non-discretionary drivers, or of changes in forecast revisions. Bilateral meetings are also held involving each portfolio Minister and the Minister of Finance (and/or Associate Ministers of Finance) to negotiate over possible savings and proposed budget initiatives. The Cabinet then makes final decisions on spending and revenue proposals, and the process moves into what is characterised as a production phase with the finalisation of budget documentation and the tabling of this documentation in Parliament.

The Treasury is the key administrative actor in managing the budget process and providing policy advice to the government. It assists departments in updating baseline information and in the development of budget bids. It is also responsible for assessing budget proposals and providing advice to the Minister of Finance on budget objectives and priorities, and on such matters as the efficiency and effectiveness of programmes, the choice of outputs to deliver government policy outcomes, and policy and fiscal risks that

may be associated with a particular budget submission. Moreover it is the Treasury that brings together the wider fiscal and economic picture (Treasury, 2006).

Reflecting the central place of the government's key policy priorities – on which we commented earlier – a new development for the 2007 Budget is the introduction of a theme objectives baseline analysis (TOBA) exercise which runs from August to October. This involves the setting of theme objectives specifying the major results expected from new operating and capital spending in the current budget, and increased scrutiny of departmental baselines to ensure they are giving value for money in delivering results, and are aligned with the Government's objectives.

The legislative phase

Both the Constitution Act and the Public Finance Act prohibit the government from spending public funds without the prior authorisation of Parliament. The survival of a government depends on its ability to obtain the approval of Parliament to raise public funds and expend money. The significance of Parliament's role in granting supply is reflected in the fact that votes on the Appropriation and Imprest Supply Bills have been treated over many years as confidence issues (Boston and Church, 2002: 26).

As we noted above, pursuant to the Fiscal Responsibility Act (since early 2005 absorbed into the Public Finance Act) the government is required to present a BPS to Parliament no later than 31 March each year. This Statement is examined by a Select Committee of the Parliament, the Finance and Expenditure Committee, which then reports back to Parliament on the Statement. Parliament then debates the Statement before Cabinet makes final budget decisions.

The Public Finance Act requires the Budget to be introduced into Parliament no later than 31 July (which is one month into the financial year), and the Budget is required to be passed through its various stages by no later than 31 October. Once the Minister of Finance has presented the Budget, Parliament proceeds to debate the Budget, and the Estimates and other documentation, including a Fiscal Strategy Report and the Budget Economic and Fiscal Update are referred to Parliament's Finance and Expenditure Committee for consideration. That Committee allocates particular Votes of expenditure to the relevant subject Select Committees for review, and those Committees examine the Estimates (between June and August) and may question departments and Ministers on the appropriations of public monies being sought. Approval of the Estimates is a matter for the full Parliament (Boston and Church, 2002: 27).

As Boston and Church (2002) note, until 1996 the Parliament could only alter Votes by amending them downwards. However, a change to Parliament's Standing Orders now allows Members of Parliament to propose amendments that, if passed, would have the effect of increasing expenditure. That change

notwithstanding, the government of the day is able to exercise a financial 'veto' where it considers that any change would, in the government's view, have more than a minor impact on fiscal aggregates. This measure is typically only used under minority government where the government does not have the numbers to vote a specific proposal down. Clearly a minority government will still need to negotiate with minor parties to ensure the passage of budget legislation, and while it is possible that a minority government could face difficulties securing the passage of budget legislation, to date few significant problems have arisen in the New Zealand context.

There is accordingly little formal opportunity in New Zealand for non-governing parties to influence the Budget over the course of the legislative stage. This is in stark contrast to the practice in other jurisdictions with proportional electoral systems (such as Denmark, Sweden, and Norway) where there are no restrictions on the right of Members of Parliament to put forward proposals for increasing or decreasing expenditure levels and tax rates.

While the budget processes continue to evolve, changes tend to be at the margin, and the move to an MMP electoral system, and more specifically to multi-party government, has not seen any significant changes (Boston and Church, 2002). There have been few changes to the key phases or sequencing of the budget cycle, the Minister of Finance remains the dominant political figure and the Treasury the dominant organisational influence. Conflict or tension, such as it is, tends to be centred, as in the past, on disagreements between Treasury ministers and spending ministers, rather than between coalition partners. Moreover, the basic conventions surrounding the budget process, including secrecy and consultation on a need-to-know basis, remain in place. Finally, the role and influence of the Parliament during the legislative phase of the budget process has changed little:

unlike the situation in some European multiparty systems (e.g. Denmark, Norway and Sweden), the legislative phase has not become a forum for inter-party negotiations over the details of the budget, nor has there been any threat of amendment once the budget has been introduced to the House or any serious risk of the government losing a vote on supply.

(Boston and Church, 2002: 42–43)

Enhancing democratic accountability: key lessons and continuing dilemmas

The 'New Zealand model' of public management is, and always has been, an iterative work in progress. That said, it is helpful to view the development of that model, over time, as being characterised by two phases. The first phase, over the period from 1985 to the mid-to-late 1990s was, in the assessment of the New Zealand State Services Commission, strong on performance – on what is to be done. But it was weak on strategy – on why it is done, and to

what effect, and weak on capability – how it is done and with what (State Services Commission, 2001). As a consequence of this, the mode of governance characteristic of the first phase was a New Public Management variant of the traditional hierarchical model – in effect it was governance as contract. The contractualist approach brought with it a number of weaknesses and limitations. Some of these were already well recognised in the literature. These include high transaction costs, the problem of goal displacement, and the related development of a check-list mentality in which individuals only give attention to the matters specified in the contract and ignore their wider professional or ethical responsibilities (Schick, 1996; Gregory, 2000). Some of the contractualist devices in New Zealand also tended to complicate, rather than simplify, accountability relationships.

The distinction between outputs and outcomes, and between the Crown's purchase and ownership interests, failed to enhance significantly the level of political accountability or to make the boundaries between political and managerial accountability much clearer. And as Schick (1996) has noted, the distinction between ownership and purchasing, particularly over what we have characterised as the first phase of the reforms, resulted in an undue focus on the latter at the expense of the former. As a result, government – and more to the point administrative – capacity was run down, and capability compromised. As a consequence, the second phase of the reform process has been accompanied by the rebuilding of government capacity and capability, and a better balance between, and alignment of, the purchase and the ownership functions.

That second phase has seen the contractualist mode of governance progressively replaced with one that is more outcome focused, and directed to much stronger horizontal integration across government – in effect, a model of 'joined-up' governance. This reorientation in the mode of governance has, unlike the first phase of the reform process, been achieved without a bureaucratic 'revolution'. Moreover, there has been no repudiation of the basic institutional building blocks established by the State Sector Act, the Public Finance Act, and the Fiscal Responsibility Act. What we have seen is a process of evolutionary and incremental change. But those changes have seen legislative amendments designed to allow a greater measure of focus on strategy (including greater horizontal integration in policy development and implementation) and capability (including improved leadership from the political and administrative centre). One of the tensions that has come to the fore in this regard is the need to provide executive government with the institutional wherewithal to use resources in a more fluid, responsive and joined-up manner, while at the same time ensuring that Parliament's constitutional role in appropriating expenditure and holding the executive to account is protected (see Newberry and Pallot, 2006). While we do not subscribe to the view that there is, within the architecture of New Zealand's public finance system, an underlying logic that is progressively resulting in a reduction in the size and capacity of central government. On the other hand there is nothing in

that system that, independent of political decision-making and the public interest, will necessarily ensure a sustainable and optimal level of investment in public infrastructure. In the final analysis politics remains the key driver.

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9 Accounting and democratic accountability in Norway

Åge Johnsen

Introduction

Norway belongs along with the other Scandinavian countries and Iceland and Finland to the 'Nordic model'. The Nordic model is characterised by a big public sector, a high level of taxes and generous universal welfare services. The Nordic model is also characterised by a flexible economy with regards to market regulation and innovation, and extensive co-operation in industrial relations between trade organisations, unions and the government. There is high equality in wages and the inflation and level of unemployment is low. There has also been little corruption and the public sector institutions are transparent. Norway has, together with the other Nordic countries, received very high rankings in the United Nations Development Programme (UNDP) annual Human Development Index (HDI) during the later years. The HDI monitors average accomplishments in life expectancy, knowledge and education and standards of living measured as GDP per capita (European Policy Centre, 2005). The Nordic model is therefore an interesting case in many respects regarding democratic accountability and public policy (Heidar, 2004).

We argue for the importance of studying accounting in politics and for taking into account the possible impact of national size, political as well as governmental institutions, public management reforms and public management culture. Norway is a unitary state. Norway has developed its political and governmental institutions along the highly consensual, decentralised Nordic political model. We chose the case of Norway (together with New Zealand) because it provides a relevant benchmark as comparison to the patterns and developments in the countries that we study – UK and USA – which predominantly have majoritarian, two-party systems and federal or devolved institutions. Another important reason for including Norway in the comparison besides the small size of the country – Norway had 4.6 millions inhabitants in 2006 – is that Norway has a long experience with multi-party proportional representation (PR) and multi-party coalition (and also minority) governments, which has become part of the devolution experience in the UK.

In this chapter we explore how accounting information is used in the Norwegian parliamentary system. The use of budgets, financial accounting

and performance information in the Norwegian Parliament has been little studied since the 1980s and early 1990s (Brofoss, 1985; Rasch, 1993). Since the mid-1980s governmental financial management has relied on principles of frame budgeting and management by objectives and results (MBOR) (Lægreid, Roness and Rubecksen, 2006). We ask: how do the actors conceive of accountability? How is the provision of general and accounting information facilitating the actors' needs? How have public management reforms affected the budget process, accounting and performance information? Who are the main users of accounting information? Are some actors more influential than others? How are the budget scrutiny, financial reporting and the monitoring of performance conducted?

Our period of study was the 2001–2005 election term. The information is based on interviews and monitoring of media coverage of Norwegian politics and public management. We used the same questions to the Norwegian informants as we used in the UK interviews.

The reminder of this chapter is outlined as follows. After having introduced central elements of Norway's political-administrative characteristics, the chapter goes on to present sections on public management reforms and public management culture, political institutions, governmental structure and the planning cycle in public management. After that follow sections based on the interviews of political representatives, auditors and senior governmental officers which analyse accountability, provision of information, accounting, performance information and budget issues. The final section discusses the experiences of Norway and shows how the Parliament seems to have developed a proactive management style with respect to budgeting and a reactive management style with respect to financial accounting and performance information.

Public management reforms and culture

Policies and public sector reforms in Norway are often implemented incrementally following consensual policy-making even though (coalition) governments change. Representative democracy in Norway has, according to Matthews and Valen (1999: 190) been very successful 'judged by almost any standard'. Lijphart (1999), who studied democracy in thirty-six countries from 1945 to 1996, concluded that:

The enormous variety of formal and informal rules and institutions that we find in democracies can be reduced to a clear two-dimensional pattern on the basis of the contrasts between majoritarian and consensus government. . . . The consensus democracies do clearly outperform the majoritarian democracies with regard to the quality of democracy and democratic representation as well as with regard to what I have called the kindness and gentleness of their public policy orientations.

(Lijphart, 1999: 301)

The use of accounting, performance measurement and performance audit has been heavily emphasised in NPM reforms under different political regimes in different countries for the last twenty-five years or so, but such information systems are not new in either public management or politics (Downs, 1957). On the other hand, NPM reforms emphasising increased output orientation could have developed more extensive use of performance information than before, even though such use of information may well have been abundant prior to the rise of NPM reform 'movement'. Those countries that are known to have been relatively active with NPM reforms, such as the UK and maybe even more so, New Zealand (Boston *et al.*, 1996), may have achieved more extensive and sophisticated use of performance information compared to other countries. The Scandinavian countries and the Netherlands, however, were also expected to be active NPM reformers (Hood, 1995). By comparison, the Norwegian government is commonly assumed to have adopted a reform strategy by being a 'slow learner' (Olsen and Peters, 1996). This means that the Norwegian government are monitoring experiments and reforms both home and abroad at a distance and are eventually able to adopt those elements that are deemed most suitable in a Norwegian context. Thus, there may well be time lags in implementation as well as national distinctions in public management between the countries we study in this book. On the other hand, due to the consensus-seeking decision-making processes, once implemented, the policies and reforms in Norway may find themselves in a more receptive climate and thus be more effective than comparative policies and reforms elsewhere. The consideration for culture seems to be supported by Lijphart's conclusions regarding institutions and culture:

Consensus democracy may not be able to take root and thrive unless it is supported by a consensual political culture. . . . It appears more plausible to assume that both consensus democracy and these kindlier, gentler policies stem from an underlying consensual and communitarian culture than that these policies are the direct result of consensus institutions.

(Lijphart, 1999: 306–307)

We contend that Norway predominantly has an egalitarian public management culture more than any of the other countries that we study in this book. Hood (1998: 9) defines egalitarian management cultures as 'forms of organization [that] are distinct from the world outside but the rules of the game are constantly "in play", giving rise to continuous debate about how individual cases or issues are to be handled'. Traits of the egalitarian management styles could be distinct public sector organisations, rules regulating voting and representation, rules for the political representatives' and the public's access to governmental information, and lobbying from environmental, feminist or fundamentalist interest group activities. For example: there is relatively long-established transparency in public management and the Norwegian parliament amended the Public Information Act as early as in 1970. This is

relatively early compared to the time of the adoption of Public Information Acts in some of the other countries that we study in this book – New Zealand, UK and USA – but Norway was a relatively late adopter among the Nordic countries. Sweden was the first country to legislate the principle of freedom of public information in 1766 (Erlandsen, 2005). Finland had a Public Information Act as early as 1951 (NOU, 2003b). UK amended the Freedom of Information Act in 2005. Norway, and to some extent probably also the other Scandinavian countries, has historically had an egalitarian culture, probably extending back to the saga period (Dahl, 1998).

Congruent with the egalitarian public management culture in Norway there is a strong emphasis on consultation, including ‘corporatism’ and lobbying activities. A striking example is contrasting the plenary debating chambers of Westminster where the opposition and government MPs are seated facing each other on each side in the House of Commons, whereas the Norwegian parliamentary representatives are seated in a ‘horse shoe’. The British Parliament, Westminster, mirrors a confrontational debating culture and possibly an individualist and a hierarchical public management culture. Hood (1998: 9) defines a hierarchist approach as reflecting ‘a structure of organizations which are socially coherent and operate according to well-understood rules of procedure’. He defines an individualist approach to public management as involving ‘antipathy to collectivism and a preference for handling every transaction by trading or negotiation rather than by preset rules’ (Hood, 1998: 10). The debating culture of Westminster contrasts with the Norwegian Parliament, mirroring a more consensual debating culture and an egalitarian public management culture.

Political institutions

Norway is today a nation-state. A nation-state is a people where its politics (the state) and its culture (the nation) are in alignment, often with a homogenous language, religion and symbolic identity (McCrone, 1998). Norway became a sovereign nation with a national parliament in 1814. At the time the Constitutional Assembly met in 1814 Norway was what David McCrone has termed a ‘stateless nation’. A stateless nation may have a strong and homogenous culture but lacks an accompanying state. Nordby (2004) has in his historical exposition of the Norwegian Parliament’s power during the 1814–2004 period, explained in some detail the process and constitutional arrangement that took place from 1814 onwards. The Constitutional Assembly not only drafted a constitution for a sovereign state but also looked for national traditions that predated the union with Denmark. There are therefore also traces of thirteenth-century law and custom in the Constitution of 1814 as well (Matthews and Valen, 1999). For instance, the national parliament in Norway is *Stortinget*. In the Middle Ages there were three regional assemblies, *ting*, in Norway. The *ting* was an assembly of all free men, which met regularly and functioned as a legislator and as a court. The word *Stortinget* means the big

assembly – the *ting* for the whole nation. *Tings* existed in all the Nordic countries in the saga period. Today the word *ting* is preserved also in the names of the Icelandic Parliament (*Alltinget*) and in the Danish Parliament (*Folketinget*). The word *ting* can also be found in the names of many local places throughout the Scandinavian countries as well as in the UK (Dahl, 1998; Matthews and Valen, 1999). Spanning a period of nearly 200 years, the modern political institutions of Norway should therefore have had ample time for establishing and developing proper rules and processes for democratic accountability.

After becoming a nation-state, Norway has – as many other young and small nations have done – built a strong national identity through, for instance, developing a distinct (written) language, literature and promoting sports (Hobsbawm and Ranger, 1992). The events of gaining national sovereignty in 1814, the break up of the Union in 1905, and the liberation from the German occupation 1940–1945, are all events that are used to mark this strong sense of national identity. When the Norwegian people voted on the issue of joining the European Union (EU) in 1972 and 1994, the majority was against the idea and the whole issue of membership made deep cleavages in the political landscape. The national and parliamentary sovereignty is therefore an important issue in Norwegian politics.

There were 165 representatives from eight parties during the 2001–2005 election term and 36 per cent were women representatives. (The number of representatives increased to 169 after the 2005 national election.) The parliamentary representatives are elected by the PR system. Compared to the average population the parliamentary representatives constitute a social elite. Of the representatives of the 2001–2005 term 89 per cent had experience of local politics either as a member of municipal or county councils or both. The representatives often have higher education and since 1945 they have been elected to parliament earlier in their life than their predecessors used to be. The parliament is increasingly staffed by professional career politicians (Matthews and Valen, 1999; Narud and Valen, 2006).

The Parliament had fifteen standing committees in the 2001–2005 term. The number of average committee members in the Norwegian parliament is relatively high. The Standing Committee on Scrutiny and Constitutional Affairs – hereafter the Control Committee (equivalent to the Public Accounts Committee in Westminster and the Audit Committee in the Scottish Parliament) – had ten members, the Standing Committee on Finance and Economic Affairs (hereafter the Finance Committee) had twenty members, the Education Committee had sixteen members, and the Health Committee had fourteen members.

The Norwegian Parliament has extensive conduct of business in committees resulting in a high degree of decentralisation and specialisation within the Parliament. Generally, the standing committees perform important functions in contemporary legislatures (Matthews and Valen, 1999). The specialisation by standing committees (and the parties) makes it possible for the

representatives to handle a large number of complex issues simultaneously, under conditions of intense interest group activities and media attention. However, while openness, transparency and equality are values which are held in high esteem in Norway, the parliamentary committee meetings are closed for the media and the public. (The plenary sessions are of course open to the public.) The practice of conducting committee meetings in closed sessions despite the emphasis on transparency may reflect the crucial importance of the committees in the Norwegian, consensual way of doing politics.

The governmental structure

Formally Norway is a Kingdom, but parliamentarism evolved into common law after 1884. Parliamentarism was not legislated in the Constitution before 2007 (in fact during the time of writing this chapter). The Norwegian Parliament unanimously voted on 20 February 2007 for changing the Constitution's Article 15 (Nordby, 2007). The highest executive authority is held by the cabinet (the Council of the State). For most of the period studied in this chapter (2001–2005), Norway had a minority, centre-right coalition government led by Kjell Magne Bondevik, the Bondevik II government. This government consisted of the Conservative Party, the Christian People's Party and the liberal Left Party and ruled for the four years of the 2001–2005 parliamentary term. (Bondevik also led a government from 1997 to 2000 consisting of the Christian People's Party, the liberal Left Party and the agrarian Centre Party.) From October 2005 there has been a red-green majority coalition government led by Jens Stoltenberg, the Stoltenberg II government, consisting of the social democratic Labour Party, the Centre Party and the Socialist Left Party.

In 2001 the Bondevik II government had seventeen ministries and was co-ordinated by the Prime Minister's Office. The cabinet had nineteen members including the Prime Minister. In addition to the ministries the central government consists of agencies and state owned enterprises.

Norway is a unitary state hence there are no federal structures. Except for the Sámi Parliament (*Sametinget*), which was established in 1989 in the northernmost region – in parallel to the existing county assemblies – there has been no political devolution in Norway in modern times. Note, however, that the Sámi Parliament formally is not a regional parliament as such. The assembly represents the traditional main minority group, the Sámi people. It has devolved powers concerning the Sámi people for certain issues regarding culture, business, language and education.

Local government currently consists of two tiers: the municipal level and the county level. In 2002 there were 434 municipalities and eighteen counties. In addition, the capital Oslo had a mixed status as both municipality and county. In 2002 the responsibility for secondary health services was transferred from the counties to devolved governmental health regions; this devolution, however, concerned administrative matters. The health regions

governed the hospitals through boards that were not constituted by elected politicians. The local government structure has been debated for a long time, and currently there are ideas to abolish the eighteen counties and establish a smaller number of regions in their place. These regions would eventually have political and administrative powers devolved from Parliament. If this happens, Norway may develop governance more towards a devolved structure. However, in the red-green coalition government (Stoltenberg II), the Minister for Local Affairs and Regional Development was from the Centre Party. The Centre Party has been opposed to municipal and county amalgamations for a long time.

The national audit institution, the Office of the Auditor General of Norway (*Riksrevisjonen*) was established in 1816. Its activities are regulated by the Norwegian Constitution Article 75k, Act on the Auditing of Governmental Accounts 1918, and various parliamentary instructions and decisions. It reports to the Control Committee, which was established in 1993, on all matters concerning governmental funding. In Norway there has traditionally been a relatively high level of trust between people and in political institutions, including the government and the Parliament (Matthews and Valen, 1999). Traditionally accounting and audit has not played any significant role in politics and management compared to planning and budgeting. The current strong emphasis on performance management and audit seems to a large extent to be a result of reforms from the 1970s and onwards, especially reforms that were implemented regarding frame budgeting and management by objectives and results (MBOR) during the 1970s, 1980s and 1990s (Christensen *et al.*, 2001). The Office of the Auditor General has in later years extended its activities and capacity in performance audit and had a total number of staff of about 450 in 2000.

The planning cycle

The planning cycle is set out in greater detail on the Parliament's website and in Nordby (2004), on which much of this section is based. The Norwegian Constitution of 1814 states in Article 75 that the Parliament is the final authority in matters concerning the finances, including expenses and revenues, of the State. The governmental accounting was initially fund accounting. Fund accounting is the practice of accounting in terms of separate, independent, constituent parts (funds), instead of in terms of the organisation (government) as a whole. From 1901 there has been a debate of the whole budget. From 1928 the Parliament has decided on all government expenses according to one regulation, in practical terms using cash accounting. Cash accounting is the practice where revenue is recognised in the accounts on the point when the goods sold generate a payment and expenses when the goods purchased are paid. This contrasts to accruals accounting where revenue commonly is recognised when goods sold generate the issuing of an invoice and expenses when the goods purchased generate an invoice (Jones and Pendlebury, 2000).

From 1961 the budget year has followed the calendar year. The Parliament thus allocates funds at the disposal of the executive power, the Government, in the state (fiscal) budget (*statsbudsjettet*). The Parliament does not just permit the spending of money it also has the power to order that such expenditures are for specific purposes. Along with the state budget the government has, since 1947, also annually presented the national budget (*nasjonalbudsjettet*) which documents the national economy and presents the main content of the government's fiscal policy. The regulation of the Parliament's handling of the budget and accounts have been revised several times. The latest major revisions of the Parliament's management of the state budget and accounts (*bevilgningsreglementet*) took place in 1996, and the latest major revision of governmental financial management (*økonomireglementet*) was in 2003. The government uses management by objectives and frame budgeting as central management principles (NOU, 2003a). In order to secure prudent financial management, the total budget frames are decided before the committees deal with the more detailed allocations.

Before the state budget is submitted to the Parliament, it has to undergo an extensive procedure with top-down and bottom-up processes extending to a period of nearly one-and-a-half years. In this process all government institutions and branches of the government administration are involved. After discussions between the ministries and the Government have been concluded the Ministry of Finance sets up a complete state budget proposal, including the National Insurance scheme. The state budget receives the official approval of the King in Council, whereupon it is submitted to the Parliament as Proposition No. 1 (the 'Yellow Book').

The state budget is always the first item of business to be dealt with when the Parliament convenes in the autumn. The proceedings to adopt the budget take most of the autumn session. The Government has to submit its budget proposal, the Yellow Book, by the fourth day of the session (normally early October), and the Minister of Finance presents the budget proposition before the Parliament in the Budget Statement. The Budget Statement forms part of the basic material for the subsequent budget debate.

The Parliament assigns the various chapters of the state budget to the appropriate committees. The Finance Committee co-ordinates the state budget proceedings which, by 20 November at the latest, presents a recommendation concerning the national and state budgets with a proposed resolution on budget limits, 'budget frames', for appropriations in accordance with the spending programme laid down by the Parliament. The Finance Committee submits at the same time a recommendation concerning taxes and duties, revenue items and block grants to municipalities and counties. The Parliament has to deal with these recommendations within one week. This is then followed by the annual budget debate.

A vote on the proposals submitted in the recommendations concludes the budget debate. A single resolution fixes collectively the amounts for all the separate spending programmes. In the following weeks, the parliamentary

standing committees submit recommendations concerning appropriations within the spending programmes allocated to them, which includes all chapters and items within each separate spending programme.

The standing committees may only make reallocations within the limits that have been decided by the Finance Committee. This means that increases in expenditure must be matched by decreases in expenditure or by increases in income. Hence, the culture theory proposition that a 'social democratic' regime that is high on the egalitarian as well as on the individualist dimension can manage both revenue and income (Wildavsky, 1986), seems to be justifiable at least assessed by institutional arrangements of the budget process. The Parliament considers the budget recommendations of the standing committees by 15 December at the latest, culminating in the Parliament's final budget resolution. The amounts for all the separate items within a spending programme are fixed collectively in a single resolution.

The recommendations of the individual committees are dealt with in plenary session. In debates on the individual budget recommendations, strict time limits are observed in order to ensure that the entire budget will go through in time. Budget proceedings are subject to a strict time limit. Normally no more than two-and-a-half months may be used to adopt a budget. In extraordinary cases, such as a change in government (as in 1997), the time available may be even shorter. In practice, the Parliament accepts the Government's proposals, with minor changes (Rasch, 1993). The Government's proposal and the Parliament's resolution normally differ financially by less than 1 per cent.

The Parliament makes many of the appropriations in the form of block grants or 'umbrella appropriations' making the Government responsible for the final decisions about how the funds are to be applied.

Any royal Proposition concerning amendments to all the separate budgets of the individual ministries has to be submitted by 15 May during the fiscal year concerned, in the submission of the Report to the *Storting* concerning the revised national budget (*det reviderte nasjonalbudsjettet*). The Finance Committee submits recommendations concerning such amendments by the second Friday in June, at the latest.

Accountability

The general notion of accountability among our interviewees was that it was concerned with reporting the use of money according to rules and regulations. However, it should be noted that there were some broader views on accountability, more resembling democratic accountability, represented also. All the three interviewees from the Office of the Auditor General emphasised compliance with law and regulations and that this conception also encompassed performance audit in order for the Parliament to control implementation and the total governmental use of resources. One MP preferred to use the English concept 'accountability' instead of using the Norwegian concepts for responsibility and obligation to report to superiors. What this concept implied to

this MP and other MPs whom we interviewed, was economic responsibility, documentation and transparency. This combination was regarded as important for facilitating democratic accountability. One MP emphasised that accountability in particular was giving an account of historical events.

One senior opposition politician held a potentially important view on the political need for keeping closed (private) parliamentary committee meetings. When this representative heard of the practice of holding committee meetings in the Scottish Parliament open for the public, he said that it was crucial for the conduct of substantial politics with informal negotiations and bargaining, that such processes should be performed under strict rules of confidentiality in the committees. He therefore strongly defended the practice of the Norwegian Parliament to keep committee meetings closed to the public. Otherwise, he contended, such negotiation and bargaining processes would disappear from the formal parliamentary organs – the committees – only to reappear in some informal organs outside parliamentary control. Thus, even though closed committee meetings apparently could be seen as counter-productive relative to consultative accountability, it should be acknowledged that the business that takes place in closed committee meetings are subject to constitutional and decentralised accountability within the parliamentary system. The alternative to closed meetings, open committee meetings, could result in an additional informal, ‘shadow political processes’ in private meetings or other forums, which may not be subject to any form of formal political accountability.

Few of the interviewees in Norway had any idea of what the Westminster model implied (Stone, 1995). This is interesting in itself, because while the majority system of the Westminster model is widely known with regard to its ‘first past the post’ (FPTP) election system for political representation, the heavy reliance on the responsibility of ministers of state to Parliament as a principle of accountability, and its confrontational style of debate, the Westminster model is virtually unknown when it comes to budgeting, accounting and performance reporting issues relative to democratic accountability, maybe with the exception of the powerful role of the PAC. One opposition politician thought, however, that given that the majority of the representatives in a majority parliamentary system come from the government party, the parliamentary scrutiny of the budget in a Westminster system would be less meticulous than in a consensual system such as in Norway. Another opposition politician held the view that even though the parliamentary decision processes were working well, the parliamentarians’ interest in and control of the government’s implementation of public policy could be improved.

Provision of general and accounting information

Many of the interviewees stated that the most active users of accounting information in the political system were the committees within the Parliament, and the ministries and interest group organisations outside the Parliament.

The general opinion was that there was no lack of data, rather the contrary. However, the quality of certain data could be improved. No group of actors felt that there was any problem in obtaining information, and the budget processes were transparent. Furthermore, neither the auditors nor the opposition felt that disclosure of information in itself was a problem. However, the opposition had to be alert and closely scrutinise how the government presented information in order to avoid 'interesting' or controversial issues being underexposed in the narrative parts of the planning documents.

The Norwegian political model builds on openness and transparency, as one could expect in an egalitarian political and managerial culture. However, even though openness and transparency are valued, they may also have their drawbacks. For instance, the media could utilise the correspondence between the Office of the Auditor General and audited agencies in order to make headlines of questions that after the issues were settled, turned out to be mere mistakes or no real problems. The correspondence regarding audit projects and reports in the making between the Office of the Auditor General and the government auditees was subsequently withdrawn from the public. This change took place during the period of study. The final audit reports are evidently still public. Furthermore, in goal setting the ministries could set milestones or targets relatively low in order to avoid public critique in case the milestones or targets were not met as initially planned.

Norway is a highly organised society with many organisations and traditionally many active members in different kinds of organisations. The larger and more powerful organisations in Norway have often been in regular contact with the government through the network of commissions, councils, committees, advising boards, steering boards, conferences and so on. It is common to state that neo-corporatism is, or at least was, a major attribute of Norwegian political life (Matthews and Valen, 1999). Our informants pointed out that the organisations, small and large, actively seek to influence the Parliament. However, such influence was seen as positive and as contributing to enhancing the quality of the political decision premises. Within parliament, the interviewees felt that the representatives had influence mostly based on their assigned formal role in the planning processes, in particular depending on being given the task as party spokesman or the alternating role as speaker for specific cases within the committees. We found no evidence for the presence of 'political onlookers' (Olsen, 1970) among the parliamentary representatives.

Resource accounting and budgeting

The Norwegian Government currently uses cash accounting; resource accounting and budgeting (RAB), which is based on accruals accounting, is not a concept in use in Norway. The cash accounting system means that the financial statements only report revenue and expenses and not income and costs, as for instance depreciation of assets, for the calendar year. Investments

are treated as capital outlays (expenses) in the financial statements and the balance sheet is therefore incomplete regarding many non-financial assets. Every year the financial elements of a traditional balance sheet such as shares, cash and debts are reported. Non-financial elements such as property, machines and equipment are reported separately only every fourth year (NOU, 2003a).

During the interview period, the Ministry of Finance published an official report (NOU, 2003a) which documented the use of RAB in different countries and made proposals to experiment and eventually also implement accruals accounting in Norway. The Norwegian government later addressed the issue of implementing RAB in the planning documents for the 2004 budget process. The state budget and accounts were still to be based on traditional cash accounting, but the Parliament decided to undertake some development and piloting. The Ministry of Finance in 2005 started developing accruals accounting standards and implementing accruals accounting in ten pilot agencies involving seven ministries. In 2006 the Ministry of Finance gave the Government Agency for Financial Management (*Senter for Statlig Økonomistyring*) the responsibility for this piloting, and the piloting was extended to more agencies.

All the politicians interviewed were satisfied with the accounting information provided under the present cash accounting system, but few of the politicians were well informed about accruals accounting. The auditors and the government official interviewed, however, were very well informed, and even though they argued that they would nevertheless work effectively with the present cash accounting system, they were receptive to a shift towards accruals accounting.

Performance information

Norway has extensive decentralisation and increasing tendency to be organised around agencies and government owned enterprises. Note, however, that certain agencies (*direktorater*) have been used in the Scandinavian government for a relatively long time. In Norway agencies have been used since the 1950s. To some these trends of agencification may indicate a shift in control modes with a reduction in direct governmental control and an increase in autonomous professional control. It was argued that due to the necessity of maintaining political control, the detailed *ex-ante* input control has been replaced by detailed performance control and the need for governmental managers to be able to document their actions *ex-post*.

There did not seem to be substantial problems in availability or use regarding performance and audit information. The government had improved its method of reporting in the existing planning documents, and the systems were improved incrementally. Several of the interviewees pointed to the impact of public management reforms since the 1970s on the improvement in performance measurement, audit and reporting. However, there were some views

indicating that more standing committees could use available audit information more actively in their areas of responsibility. Overall, the interviewees assessed the reporting of performance information and the increasing use of performance audit as successful, although some pointed to the need for further development of performance measurement and reporting.

Budget issues

Since 1970s the petroleum industry has made an increasing impact on the economy. Norway today is profiting from surpluses after big investments in this sector over many years, but Norway is not unique among the Nordic countries in having relatively high gross national product per capita, high living standards, long life expectancy and high levels of equality in society. These characteristics are shared by all the Nordic countries. Norway, however, now profits more than the other Nordic countries from big surpluses from petroleum-related activities that could be and to some extent are being used in the state budgets. The economic impact of the petroleum industry causes special challenges for economic policy and financial management. The government has developed measures to adjust the national budget and accounts for the impact of petroleum-related activities in order to be able to manage prudently. Producing, selling and taxing oil and gas transform the physical oil and gas assets into financial assets. This money is invested in the nowadays gigantic petroleum fund, which from 2006 is termed the Pension Fund. The government has also developed the 'golden rule' for the proper handling of the surpluses from this fund (*handlingsregelen*). Every year only a certain target percentage (4 per cent) of the surpluses from the fund are to be used in the state budget, but the exact amount is obviously a hot policy issue between the different parties, and is also subject to macro economic financial management. Nevertheless, all the big parties share a concern that future generations should also be able to profit from the national petroleum assets, and Norway should consciously avoid coming up against the same financial mishaps caused by excessive public spending and subsequent macro economic and social problems that many other oil producing countries have experienced. Thus, for the Norwegian government and for all parties a sound economic policy and tight budget scrutiny is very important.

There was strong consensus among the politicians that budgets are extremely important in politics. All interviewees stated that the representatives meticulously scrutinise the budget, and some of the opposition parties – especially the larger ones – regularly present alternative budgets to the government's state budget proposal. Thus, all representatives (and parties) seem to take great care in budget scrutiny regarding their areas of responsibility and political role, but they rely to a large extent on colleagues in their own parties as well as colleagues in their respective committees for scrutiny in other budget areas.

The scrutiny of financial accounts is marginal compared to the extensive

budget scrutiny process. The parliament as such seems to have established efficient specialisation between committees and their individual members regarding scrutiny of the budget, and there also seems to be an efficient division of labour between Parliament and the Office of the Auditor General. The representatives normally do not take much interest in accounts unless these can be used for blaming an official or minister for careless or irregular use of public money, often of relatively small amounts. If the Office of the Auditor General, on the other hand, gives qualified opinions or reports politically interesting performance audits, the politicians will take relevant action.

The overall view on the budget process expressed in the interviews was positive. Even though some politicians realised that the room for making political bargains had been restricted by the fixing of the budget frame on the onset of the Parliamentary budget cycle, a reform which started in 1996, the politicians acknowledged that this had resulted in a better organised parliamentary budget process and with overall more responsible budgeting by the political system.

Discussion: proactive use of budgeting and reactive use of accounting

The Norwegian Parliament relies heavily on division of labour and specialisation (Thompson, 2003 [1967]). The standing committees have their areas of responsibility more or less mirroring the ministerial areas of responsibility. Each representative usually sits in one or more committees and gains experience and expertise. The committee members play different roles depending on their party's role as member of the government or the opposition. The committee members also play different roles depending on being allotted the role as speaker for the case or issue in question or not. In addition to this division of labour and specialisation within the Parliament comes the formal division of labour between the Parliament and the Office of the Auditor General, where the Parliament scrutinise the budgets and the auditors report on deviations from policies and decisions by financial and performance audits of accounts and results. The parliamentarians may see their role – informed by party staff, committee colleagues, interest groups and constituency voters – predominantly as citizens' ombudsmen and the voters' budget scrutinisers. Their role as the tax payers' guardian for the bottom line and advocate for clients' or customers' concern for public performance mainly seems to be evoked by negative feedback formally from the auditors or more informally from media. Thus, the Parliament has developed a *proactive* management style with respect to budget scrutiny and budgeting issues and a *reactive* management style relative to using financial accounts and performance audit information. Thus, budgeting is the proactive planning and accounting and audit is the reactive fire detecting. Note that this arrangement has developed even though – or maybe because of – the legislature today mostly consists of professional career politicians. Furthermore, these institutionalised roles and

routines (planning and 'police patrols' versus fire station and 'fire alarms') could be highly effective relative to the degree of ambiguity, uncertainty and complexity inherent in the political system (McCubbins and Schwartz, 1984).

Norway is sometimes labelled as a slow learner (Olsen and Peters, 1996) and as a hesitant reformer (Mellemvik and Pettersen, 1998), at least at the governmental level, but this has many explanations. Compared to Britain and New Zealand, policy in Norway is implemented relatively incrementally following consensual policymaking even though (coalition) governments change (Matthews and Valen, 1999; Pollitt and Bouckaert, 2000). Coalition and especially minority governments may not produce action as easily as majority and one-party governments can do. On the other hand, coalition governments may have advantages when it comes to learning (Olsen and Peters, 1996). If learning occurs well when there is a situation with some level of disagreement about facts and values, uncertainty and ambiguity, then a coalition government might be more conducive for learning than a majority government. If this assertion is right, then political systems with coalition governments might emphasise the use of accounting for learning relatively much. It is therefore interesting to note that the size of the Norwegian audit institution of 450 employees in 2000 was relatively large, for instance compared to NAO which had a staff of 800 in total (including Wales).

Accounting principles and making management accounting systems and planning reports comprehensible and user friendly are important issues in politics. However, it must be acknowledged that accounting systems and reports are to be used in, and for, politics (Downs, 1957). Politics have at least two important implications for accounting for democratic accountability. First, due to uncertainty and constraints political actors such as politicians and lobbyists use information economically. This means that they only search for and use information that presents news relative to what the actors perceive is common knowledge in the political system at present. Second, political actors only use information that they perceive as useful in their political competition. That means in practice that due to the motives of being re-elected, budget information will tend to overshadow accounting information, and single issue information with potential interest for specific interest groups will tend to overshadow broader issue information for the general electorate. This may, at least when compared to an ideal decision-making process, lead to apparent 'short-termism' in using information.

The issue of reforming the current governmental cash accounting system to accruals accounting and long-term budgeting may have implications for democratic accountability. Accounting information may become relatively more complex for the laymen politicians, and proper policy and budget scrutiny could be compromised. This could shift the balance of power toward the executive. The political system could counterbalance this development by suitable institutional arrangements in order to secure enough scrutiny and democratic accountability. Such arrangements may encompass increased specialisation, more training, duplication of responsibilities, or 'simply' adding

more capacity by seeking external advice or devoting more parliamentary time and capacity in order to conduct proper budget scrutiny. Evidently, the accounting reform could be modified or resisted altogether. Even though some potential modifications, such as introducing accruals accounting but keeping the governmental cash-based budget reports when reporting to politicians, may be regarded as a step back relative to the currents of RAB, such arrangements may be important for safeguarding democratic accountability. Thus, democratic accountability may depend more on how the whole political system manages information than on how the individual politicians manage accounting (Stone, 1995). If, on the other hand, the political system ends up with a new accruals accounting system which effectively is (too) reliant on 'external' experts and advisors and without sufficient checks and balances within the political system, this could threaten democratic accountability. In any case, accounting for democratic accountability seems to a large extent to be highly dependent on accounting experts – auditors, certain parliamentary committees, individual politicians, lobbyists and political advisors – within as well as outside the Parliament.

Norway has relatively long experience with PR. Albeit the PR system, together with NPM and accounting reforms, undoubtedly may improve democratic accountability on many dimensions relative to the Westminster model, there may also be some potential problems. In general, coalition governments – and minority coalition governments in particular – may have problems in securing support for a coherent and long-term policy. Such mechanisms were also relevant when analysing the Norwegian case, as some Norwegian informants reported. However, the potential threat to democratic accountability because of increased short-termism in political life in a consensual system must be weighted against the problems of lack of responsiveness and democratic accountability, which may be experienced in the Westminster model. The balance between a political system's capacity to represent the citizens' interests and its ability to implement a policy is a classical trade-off in democracy (Dahl and Tufte, 1973).

The Norway case may provide several insights with implication for the analysis of accounting in politics and democratic accountability. First, budget scrutiny is, apparently, perceived by many politicians as more useful for democratic accountability than traditional accounting information. Even though politicians are proactive in budgeting and planning, their reactive use of financial accounts and performance information may be equally important for democratic accountability in detecting (and utilising) political 'fires'. Second, politicians may be satisfied with cash accounting information for their purposes, also after experience with RAB, even though some accounting experts prefer accruals accounting. Thus, Wildavsky's conclusion from the 1970s may still hold true: the traditional annual (line item) – we may add cash accounting based – budget lasts 'because it is simpler, easier, more controllable, and more flexible than modern alternatives' (Wildavsky, 1986: 327) such as zero based budgeting (ZBB), planning, programming and budgeting

(PPB), and the alternative that currently is discussed in Norway, politically-binding long-term budgets and accruals accounting (RAB). The coming three to five years will show whether the incremental piloting of accruals accounting in some parts of the government will transform the Norwegian governmental accounting, or whether the traditional cash accounting will regain ground. Our prognosis is that regardless of the development in financial accounting the budget – and increasingly performance information and audit – will dominate the accounting tools in politics.

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10 State government budgeting in the United States

Choices within constraints

Christopher G. Reddick

Introduction and background

The essence of state budgeting in the United States is choices within political and economic constraints (Forsythe, 1997). Unlike the federal government, which does not have a balanced budget requirement or a line-item veto, many state governments have tremendous constraints placed upon them which dictate the approach that they take when budgeting.

Budgeting represents a core activity in state governments. Budget decisions determine not only how much will be available for state spending, but also which policies will be implemented and which social-values will prevail in state government (Clynch and Lauth, 1991). A budget for a state government, therefore, embodies the political, economic and social aspects of governance.

Budgeting in state governments is especially important to know given the fiscal constraints, devolution and increased federal reliance on state and local governments to implement domestic programmes, including homeland security. This suggests that collaboration among interdependent national and sub-national governments needs to be advanced in state government budgeting (Anders and Shook, 2003). This is most notable since the terrorist attacks on the World Trade Center and Pentagon on 11 September 2001. Since these terrorist attacks, collaboration within the budget process has been perceived as being extremely critical for state governments.

There are three essential differences between states and the federal government in the budget: (1) adapting to boom and bust in the economy; (2) tax and expenditure limits and caps; and (3) capital budgeting (Rubin, 2005). State governments have to balance their budgets every year, or biennially, regardless of economic conditions. Unlike the federal government state governments are not allowed to deficit spend in order to stimulate the economy. State governments also have tax and expenditure limitations, some of which have been passed by citizens in public referendum. States generally have separate capital budgets and the federal government does not. The balanced budget requirement, tax and expenditure limitations and a separate capital budget present very serious constraints on state government budgeting.

There are also some important similarities between the federal and state

governments in budgeting (Rubin, 2005). Both federal and state governments rely on the separation of powers between the executive and legislative branches. They both have to fund entitlement programmes that make very large claims on their treasury such as Medicaid spending. States and the federal government both have to accommodate partisan politics with divided government of the legislature and executive branches in different hands. States and the federal government have an executive budget process. Both levels of government grant citizens and businesses tax breaks or tax expenditures. Finally, state governments deal with accountability and efficiency requirements that the federal government faces as well.

Some of the most common instruments of constraints on state budget spending are balanced budget requirements, which are used by 78 per cent of states, supermajority (more than 50 per cent plus one required to enact a budget) used by 18 per cent of states, no deficit carryover used by 76 per cent of states, biennial budget used by 46 per cent of states and tax and expenditure limitations used by 60 per cent of states (Musso *et al.*, 2006).

This chapter will examine the budget constraints on state governments through an examination of the state budget cycle, the line-item veto, balanced budget requirements, performance based budgeting and biennial budgeting. This chapter focuses on the mechanisms on the expenditure side of the budget, not on state government revenue control. There are fifty state governments in the United States, which provide a unique lens to examine public budgeting expenditure constraints. This chapter also provides comparisons of state budgeting with federal government efforts to determine any notable differences. Before we can discuss some of the constraints that state governments face in the budget process, it is first necessary to provide an overview of the functional allocation of state spending.

State budget pie

Total state spending in fiscal 2005 was over \$1.2 trillion, including both operating and capital expenditures (NASBO, 2006). For fiscal 2005 state spending shares are as follows: 22.9 per cent for Medicaid (a federally funded benefits programme, administered by individual states, that pays some medical expenses for those who meet income and other eligibility requirements); 21.8 per cent for elementary and secondary education; 10.6 per cent for higher education; 8.6 per cent for transportation; 3.5 per cent for corrections; 2.0 per cent for public assistance; and 30.8 per cent for 'all other'.

'All other' spending in states typically include the State Children's Health Insurance Program (SCHIP), institutional and community care for the mentally ill and developmentally disabled, public health programmes, employer contributions to pensions and health benefits, economic development, environmental projects, state police, parks and recreation, housing and general aid to local governments. The following section examines a typical

budget cycle for state governments; similarities to the federal government budget process are also mentioned.

State budget cycle

The typical budget cycle for state governments includes four major phases which are: (1) executive preparation; (2) legislative approval of budget and appropriation; (3) budget execution and programme implementation; and (4) financial audit and evaluation. Scholars and practitioners have described the total budget process as essentially comprising these four elements (Lee and Johnson, 1998; Hackbart and Ramsey, 1999). This section of the chapter will briefly discuss each of these phases along with some of the characteristics of budget directors, who are actively involved in state government budgeting.

In terms of executive preparation the federal fiscal year begins on 1 October, while all state governments except Alabama, Michigan, New York and Texas start fiscal years in July. The fiscal year in Alabama and Michigan starts in October, New York has an April start, Texas is September (NASBO, 2002). State agencies in consultation with the governor develop a request during the executive preparation phase. The budget document incorporates all agency requests into a government-wide request or plan. The executive budget document is a message of policy; financial numbers and justifications on spending, revenues and deficits or surpluses are provided. The executive preparation phase is not much different than that which takes place in the federal government, with the exception of some of the unique constraints that states face when developing their budget such as balanced budget requirements and the line-item veto.

The second phase of the state government budget cycle is legislative consideration (Lee and Johnson, 1998). The government budget is transmitted to the legislature for debate and consideration. The legislature splits the budget into many parts called appropriation bills and both houses prepare unified appropriation bills that are submitted to the governor. The governor normally must sign the appropriation bill before it becomes law. Some governors sign parts of the bill while rejecting others, which is called a line-item veto. Many states have a line-item veto, but the president of the United States does not.

In the execution phase agencies carry out their approved budgets (Lee and Johnson, 1998). Appropriations are spent and services are delivered. There is a constant monitoring of the relationship between what was budgeted and actually spent through variance reports. Specifically, among the control and management issues are: (1) to ensure that actual expenditures or 'outlays' by appropriation unit do not exceed actual appropriations; (2) insuring that expenditure patterns within the fiscal year are compatible with appropriations and planned service levels; and (3) insuring that expenditure documentations are provided.

The final phase is audit and evaluation where there is an examination of

records, facilities, systems and other evidence to verify desired information on spending (Lee and Johnson, 1998). Government audits are classified according to being either financial or performance based. Financial audits consider whether a programme or service has been delivered, while performance audits focus on the effectiveness of the programme or service being delivered. There has traditionally been more emphasis placed on financial audits in state governments (Friedberg and Lutrin, 2005).

The budget cycle in state governments is said to be scrambled. The preparation and submission phase requires at least nine months, approval six months, execution twelve months, and audit twelve months at the federal level, with similar patterns across state governments (Lee and Johnson, 1998). The budget cycle overlaps with audit and evaluation, for example, occurring the same time as the next year's budget preparation.

Major changes in state budgeting have been recorded in surveys between 1970 and 2000 (Lee, 1997; Burns and Lee, 2004). Decision making processes in state governments use programme information and analysis more extensively. Information technology has invaded all aspects of state budgeting. In state governments accounting systems are considerably more sophisticated than in 1970.

In a 2000 survey of state budget directors, the individuals in charge of preparing the budget have some unique characteristics. They are typically well educated with 49 per cent holding a masters degree, with the most typical background being a public administration degree (27 per cent), business administration (20 per cent) or accounting (18 per cent) (Burns and Lee, 2004).

A 2000 survey also indicated that budget directors were well educated, with the average age of a director being almost 50 years, of whom 77 per cent were men; all were Caucasian except for one African American and one Asian American. The fact that women constituted about a quarter of the budget directors is encouraging from a standpoint of representative bureaucracy, but the very low number of minority directors is not (Lee and Burns, 2003). With this overview of state government budget cycles the following sections of this chapter discusses some of the constraints that state governments face in public budgeting.

Budgeting periodicity

For the federal government the budget is determined on an annual basis. However, for state governments, the budget interval is a one-year (annual periodicity) or a two-year (biennial periodicity) period. Comparisons of annual and biennial budgets reveal that annual budgets are more flexible than biennial budgets, since adjustments can be made more frequently in response to economic and political fluctuations. Biennial budgets provide additional certainty for funded programmes and policies, although they are more susceptible to the uncertainty of more remote revenue and expenditure forecasts (Kearns, 1993).

There are three major problems with changing to annual budgeting from biennial budgeting (Kearns, 1993). First, it requires the almost continual involvement of agency and budget division staff in budget formulation, which may be to the detriment of effective budget execution and programme analysis. Second, it encourages short-term fiscal decisions that may hinder the development of a long-range fiscal plan. Third, it extends the length of legislative sessions. Fourth, it requires the executive and legislative branches to use additional resources to prepare and approve budgets.

Therefore, the trend among state governments for the past sixty years has been to abandon biennial budgeting for annual budgeting (Snell, 2004). Forty-four states practised biennial budgeting in 1940 and only twenty-one do so now. There were several reasons for the shift to annual budgeting, but in general the shift has been part of the resurgence of state legislative power since the middle of the last century. In the past decade, however, two states have returned to biennial budgeting from annual budgeting, and no state has shifted from biennial to annual budgeting. Another constraint extensively discussed in the state budgeting literature is performance-based budgeting, this will be reviewed next.

Performance-based budgeting

Interests in budget reform in state governments have arisen from public discontent with both the size and the make-up of the budget pie. These represent efforts to make the budget process more rational, objective and less political. The current emphasis on measuring results or performance budgeting in state spending has arisen out of such a discontent with past practices in state governments (Willoughby and Melkers, 2000).

It is rare that state governments would only utilise an incremental budget approach – where current spending is a marginal change from previous year(s)’ spending. Only four states (Alaska, Indiana, New Hampshire and New York) stipulate their budget approach as exclusively incremental (NASBO, 2002). Every other state indicates at least a programme approach, if not a hybrid system involving programme budgeting, zero-based budgeting, or performance budgeting along with incremental budgeting (Thurmaier and Willoughby, 2001). State budget approaches can be viewed as hybrids rather than purebreds. They can be distinguished by the adopted and adapted parts of recent reforms as well as other state government characteristics (Grizzle, 1986).

Melkers and Willoughby (1998) define performance-based budgeting as requiring strategic planning regarding agency mission, goals and objectives, and a process that requests quantifiable data that provides meaningful information about programme outcomes. Performance-based budgeting may also require an assessment of agency progress towards specific targets.

The Hoover Commission of 1949 set the initial stage for performance budgeting at different levels of government in the United States. Performance

budgeting was introduced in response to the criticism and alleged deficiencies in incremental budgeting. Unlike incrementalism, performance budgeting stressed systematic examination of the purpose and goals of a programme and assessments of its efficiency and effectiveness (Jordan and Hackbart, 1999).

The application of performance budgeting in the federal government can be seen through the *Government Performance and Results Act* (GPRA) of 1993. GPRA intended to encourage the use of performance measurement by federal agencies and has as its goals the improvement of public accountability, service delivery and congressional decision making (GAO, 2005). GPRA required federal agencies to publish strategic and annual plans describing specific programme activities with the intention of establishing a link between performance information for these programmes and agency budget requests.

States' experiences with performance budgeting have not been as cyclical as the federal experience. Similarly to the federal government the Hoover Commission served as the original catalyst for state performance budgeting efforts. Shortly after the Hoover Commission in 1949, Maryland adopted performance budgeting, and several other states convened their own versions of performance budgeting (Jordan and Hackbart, 1999).

In a study of state and local governments Kelly and Rivenbark (2003) believe that performance budgeting can improve public management in a number of ways: (1) by aligning service priorities and service spending; (2) it can add an information dimension to budget deliberations; (3) it can motivate programme managers and employees by recording their progress toward service delivery goals; and (4) it can help demonstrate to citizens that their public service providers are interested in improving service quality.

Performance budgeting cannot do the following in public management: (1) solve a fiscal crisis; (2) take politics out of budgeting; (3) reduce the influence of interests groups; (4) prevent poor managerial decisions; nor (5) focus on citizen priorities (Kelly and Rivenbark, 2003).

Melkers and Willoughby (2001) found that forty-seven out of fifty states have performance-budgeting requirements (legislative or executive), most of which have been enacted in the 1990s. Only three states, Arkansas, Massachusetts and New York, have no such formal requirement to conduct performance budgeting.

Five states were examined by a Government Accountability Office (GAO), namely Arizona, Maryland, Texas, Virginia and Washington, which have had performance budgeting requirements, systems and processes in place for seven or more years (GAO, 2005). The GAO was trying to determine any implications of state performance budgeting experiences for the federal government. The GAO found that performance information has influenced legislative budget deliberations in the five states examined. Although a number of factors, including political choice, influence budget decisions, when legislators do use performance information they found specific types of

performance information useful. Overall, when determining funding levels and defining desired levels of service relative to funding, legislators currently rely most on workload and output measures.

The literature on performance budgeting in state governments shows that there appears to be an ebb and flow in budget reform and performance budgeting is no exception. Many states have gone against a national trend and decreased their use of performance measurement (Lee and Burns, 2000). In addition, performance budgeting may enhance the appearance and preparation of the budget document, but the outcome in terms of funding has not significantly changed (Jordan and Hackbart, 1999). The line-item veto is another constraint that state governments face on the legislative side of the budget and it will be discussed in the next section.

Line-item veto

The line-item veto is the power of governors to veto sections or items of an appropriation bill without having to negate the entire bill. The threat of its use enables governors to make their influence continuously felt on the legislature's budgetary actions (Lauth and Reese, 2006). In a survey of state government budgeting one of the top restrictions that promote fiscal responsibility was the line-item veto, with 77 per cent of executive budget officers and 43 per cent of legislative budget officers identifying this as an important tool (Lauth, 1996).

The line-item veto is a special form of the executive veto available to forty-four governors to defend budget proposals against legislative additions or changes that governors deem unnecessary or unwise. It emerged because the executive veto of the entire bill had become ineffective in dealing with pork barrel spending in appropriations bills and was intended to restore the governor's ability to protect the executive budget. The line-item veto is perceived as a device for reducing the budget total and thereby the size of government. Advocates of the presidential line-item veto, which was ultimately ruled as unconstitutional, promoted it in the 1990s as a device for reducing the federal deficit and cited balanced state budgets as evidence of its fiscal impact (Lauth and Reese, 2006).

The State of Georgia has used the line-item veto primarily as an instrument for governors to defend their budgets against legislative attempts to substitute legislative priorities for gubernatorial priorities, with no discernable impact on the budget total or the size of state government (Lauth and Reese, 2006). The threat of the line-item veto may be as important as its actual use. In the State of Georgia the line-item veto is not an instrument for reducing the budget total or the size of government, but it is an effective mechanism for protecting the executive budget (Lauth and Reese, 2006).

Research shows that the frequency of line-item veto varies by state. It is used primarily against actual dollar amounts, varying somewhat by state in dollars eliminated. The line-item veto is used primarily for policy-related

reasons, and state legislature seldom overrides vetos (Reese, 1997). Overall, the line-item veto is another important constraint that state governments must face along with balanced budget requirements.

Balanced budget requirements

State balanced budget requirements in America originated from the 'norm of budget balance' in the early years of this country as a result of political considerations for minimal government (Wildavsky and Caiden, 2001). In the early years of the United States, political conflict between the Federalists and Republicans dominated the agenda. The Federalists argued for active government to support economic growth, while the Republicans desired minimal government and no debt. Compromise between the two contributed to the 'norm of budget balance'. This norm lasted from the early 1800s until the 1960s in the federal government and is still very much present in state and local governments as seen through tax and expenditure limitations and balanced budget requirements (Hou and Smith, 2006).

The fiscal control emphasis of state government budget execution processes tends to emanate from state constitutional or statutory requirements to maintain a balanced budget. The need to meet these constitutional and statutory requirements tends to dominate budget process of state governments (Hackbart and Ramsey, 1999). As we previously noted, balanced budget requirements are a constraint on the vast majority of state governments (78 per cent). The final constraint mentioned is accountability and control which takes place in the last phase of the state budget cycle.

Accountability and control

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 requiring a new financial reporting model for state and local governments (Chan, 2001). Although GASB does not set budget practices for state and local governments, these government accounting and financial reporting standards have implications for public budgeting. Statement No. 34 emphasizes: (1) the long-term perspective in budgeting; (2) stresses budgets as a tool for demonstrating public accountability; (3) considers government as a whole; (4) activates the debate over accrual accounting; (5) raises the need to project financial position; and (6) critically appraises budget practices (Chan, 2001). In short, GASB Statement No. 34 should move state government closer to generally accepted accounting principles (GAAP) long instituted in the private sector.

One of the key initiatives of GASB is the promotion and reporting of performance measurements in state governments for auditing standards. The objective of a financial audit, which reflects the traditional purpose of auditing, is to ensure financial accuracy and propriety. Authorities such as the GASB establish these necessary conditions for state governments.

Performance audits objectively and systematically examine evidence in order to provide independent assessments of performance in government organisations, programmes and activities. However, information from a survey of state government auditing indicates that the number of audit agencies initiating financial audits was significantly higher than those that initiated performance audits (Friedberg and Lutrin, 2005).

Conclusion

This chapter has examined state government budgeting in the United States focusing specifically on some of the constraints that these governments face. The most common legislative constraints are the balanced budget requirements, budget periodicity and the line-item veto. Currently the federal government does not have a balanced budget requirement or line-item veto on the books. Many argue that with these mechanisms the federal government would be able to balance its budget to promote more fiscal discipline in Washington. The federal budget is constructed on an annual basis, and many state governments have biennial budgets. Some argue that a biennial budget at the federal level would promote more fiscal discipline and control since there would be longer time frame to consider the budget.

There are also executive controls placed on the budget in state governments, which have similarities to the federal government. Performance-based budgeting has evaded forty-seven out of fifty state governments in the United States. It has also been implemented at the federal level with the GPRA of 1993. Performance budgeting is an approach for controlling the budget by looking at outputs and effectiveness of programmes. It represents a constraint on government agencies in the preparation of their spending requests. Finally, accountability and control is represented through nonbinding standards issued by GASB which, among other things, promotes performance measures in the state government budget process.

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11 Conclusion

Accounting, devolution and democratic accountability

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Introduction

In this chapter we discuss the implications of our findings on accounting information and democratic accountability, specifically in the context of debates on the nature of accounting information supplied to elected bodies and also by exploring different institutional arrangements in support of democratic accountability. We then analyse these findings, in depth, for the devolved institutions. Finally we draw out our conclusion on the impact of accounting practices and reforms of governmental accounting for the political institution of devolved bodies such as the Northern Ireland and Welsh Assemblies and the Scottish Parliament and express views on the contribution of this information to the effectiveness of democratic accountability.

Context

The nature of accounting information

In this study we have revealed a disparity in the accounting information which is supplied routinely to elected bodies and those interested in their activities. Within the UK, the government has made a radical shift from a cash-based system of accounting which had prevailed since 1866. The new system – resource accounting and budgeting or RAB – differs from its predecessor in many respects, but in particular, because it values and recognises assets held and liabilities in the balance sheet and because it includes a statement of objectives and resources utilised in achieving these objectives. At the heart of this change is accrual accounting: an approach advocated by those who see merits in public sector institutions having accounting practices which are closer to those of the private sector. However, the end result of RAB is similar to certain elements of private sector practice, but there is no straight commercial equivalence. Indeed, the debate on the appropriateness of accrual accounting for governmental accounting continues. Of those countries studied within this book, the UK has adopted this practice since 2001, but New Zealand was the initiator of this accounting policy with its version of accrual

accounting being adopted in 1996. Boston and Eichbaum (2008) note that this accounting innovation has had significant impact on improved decisions and transparency in public finances in New Zealand. However, both Norway and the US continue to use cash-based accounting as their main source of financial information.

It was noted above that the RAB has distinct statements which extend beyond the financial. In New Zealand, government financial documents have included, at different times, both output and then outcome measures. This suggests that there is a need to get beyond financial information to understand and evaluate the impact of government decisions. While both the US and Norway have more traditional forms of accounting (i.e. cash-based), both of these countries have also recognised the need to shift from basic financial data to inform decisions which are central to the exercise of democratic accountability. So, in both the US and Norway, cash-based information is supplemented by performance information. In Norway, the performance information is related to management by objectives, with priorities and targets (Johnsen, 2008). This system corresponds to that of UK devolved institutions. In the US, a more comprehensive system of performance auditing has been in place in many States since 1949. This was an early recognition of the need to enhance the financial information available to political representatives and the communities in which they are located (Reddick, 2008). However, within this well established phenomenon in the US there is diversity of practice across states, with some placing greater emphasis on performance auditing than others.

These different practices raise fundamental issues about the efficacy of different accounting practices and the engagement of elected bodies in the discharge of democratic accountability. In particular, there is considerable debate over the relative merits of cash-based information versus the accrual based accounting system of the UK and New Zealand (with further deliberation of whether and to what extent performance information should supplement the financial numbers). There is a fundamental question over whether more sophisticated accounting systems engage with, distract or even deter politicians in their debates and decision making. This is taken up further below.

The political settings

The major preoccupation of this book is the use of accounting and financial information in the context of the devolved institutions of the UK. The Assemblies of Northern Ireland and Wales and the Scottish Parliament have different origins. The establishment of an Assembly in Northern Ireland was seen as a crucial platform in restoring peace to the strife-torn province of Northern Ireland. The reestablishment of the Scottish Parliament addressed what was regarded as a democratic deficit, as successive electorates had voted by substantial majorities against the political party which was in power at

Westminster, the UK Parliament. In contrast, in Wales there was no great push for a separate elected body, but it was seen as appropriate that it was placed on a similar footing to Northern Ireland and Scotland. The act of creating these separate elected bodies has also been portrayed as a means of holding at bay the aspirations of the nationalist parties to create independent nationhoods at the expense of fragmenting the UK. However, a contrary view is that this may exacerbate the pressures for independence.

These political settings have, nevertheless, distinct systems which differ from the Westminster Parliament which gave birth to them. In the first case, these bodies employ systems of proportional representation, in an attempt to secure a more balanced set of priorities as elected members more appropriately reflect the wishes of the voters. It could be argued that this very circumstance enables, or creates the opportunity for, more deliberate discussions and proceedings in which accounting could have an important role. Second, the devolved institutions have been established as distinct, uni-cameral bodies, with supporting business committees which include representatives of all political parties, with shared convenorships of these committees. In addition, the design of the debating chambers is horseshoe in style, rather than the banked seats of opposing politicians as in the Westminster Parliament. All of these aspects of the devolved institutions are designed to foster careful debate and discussion and to minimise the scope for confrontational politics of the type experienced in the Westminster Parliament.

It is interesting to note that both Norway and New Zealand have similar political institutions, with unicameral bodies and arrangements to foster debate and discussion. Only the US retains the Westminster model of bicameral bodies, 'first past the post' elections and a hierarchy with potential for conflict and disagreement in political debate. The impact of these distinct settings is discussed further, below.

Summary of findings

There are three dimensions which we comment on here concerning the impact of accounting and financial information in the devolved institutions:

- 1 planning and budgetary cycles;
- 2 accounting and political actions;
- 3 information flows, scrutiny and overload.

Planning and budgetary cycles

The planning and budgetary cycles of central government are important elements of public accountability. The practices of the UK devolved institutions and the comparator countries show commonalities, but also significant differences. A notable example of this is the US case (Reddick, 2008), in which state governments have the option of setting their budget for one year

or for two years. Also, the financial years of states differ among themselves, and they also differ from the Federal financial year. This is indicative of the loose ties between Federal and state governments in the US, which contrasts with the more integrated financial planning and resource allocation systems exhibited in the more hierarchical UK and the centrally-driven countries of New Zealand and Norway.

Within the UK devolved institutions, the budgetary cycle follows the fiscal year in distinct stages: identification of initial strategies; followed by detailed examination of priorities; and finally, the substantive construction of the budget. While the view has been expressed (Lapsley and Midwinter, 2008) that the Scottish system, for example, is over-elaborate, it is notable that the New Zealand structure is, if anything, more complex. The New Zealand system has also shown a capacity to change fairly significantly over a short period of time (Boston and Eichbaum, 2008). There are issues, however, in moving from the identification of strategic themes or priorities in public expenditure plans and their translation into financial plans. This is accentuated by the capacity of governments to make abrupt changes to 'settled' priorities. The New Zealand experience of the sudden adoption of environmental sustainability is an example of this (Boston and Eichbaum, 2008). A particular issue here is the need for politicians to commit to the precise quantification of both policy objectives and projected outcomes. In the absence of such information, these measures lack durability, and there may be an inherent instability in the planning system as a consequence.

Within the planning system, a repeated pattern is the *de facto* incremental nature of public budgeting. This has a number of implications for the budget setting process. First, politicians may feel 'at the margins' and disenfranchised from budget setting because of incremental budgets, since under this system of budgeting future resource allocations are typically of the same level as in the previous year plus or minus a small adjustment. Second, despite the need for authorisation of budgets by the elected bodies, the formal and repetitive nature of the budget process may result in budget adoption becoming a ritual. The UK devolved bodies have very similar experiences in this connection, and this seems to be the case in New Zealand. Interestingly, the situation in Norway and USA is different. The budget process in Norway is complex and has ritualistic elements (Johnsen, 2008), but the common situation with coalition and even minority governments makes the budget process a window of opportunity for the different political actors to influence politics through the budget negotiations. Reddick (2008) outlines how state governments must depict their budgets as 'incremental', if that is how they are to be managed. However, the experience of US governments is that of a shift away from incremental to programme-based budgets.

The need to plan, control and report with respect to the performance of the public sector organisations is a fundamental theme of NPM and has been central in many UK government reforms over the last thirty years. Key ideas related to this are that strategy should come about by highly systematised

forms of planning and there is a need for specific and quantified goals, objectives, targets and performance measures. The importance of the linkages between various levels of planning and control is emphasised in many official government publications in countries embracing NPM principles. Meekings (1995) argues that performance measures implemented and used properly can have a significant impact in facilitating alignment in planning, and suggests a performance measurement framework consisting of three key elements: a top-to-bottom measurement architecture; a systematic review architecture; and an integrated planning and budgeting process. DuPont-Morales and Harris (1994) highlight the importance of developing clear links between longer-term strategic plans and shorter-term budgets. When this is done well, overall budgets and plans, broken down into programme or department budgets and targets as appropriate, and profiled on a month-by-month basis, can provide the basis of a system of regular monitoring and afford the opportunity for corrective action to be undertaken (standard aspects of a conventional planning and control system).

Such themes have been pervasive in the UK public sector, and as noted above, are elements of RAB (HM Treasury, 2003), and it is perhaps unsurprising that these features have carried over to the new devolved institutions, where general planning documents containing key themes, priorities and programmes are aligned to the detailed financial budgets. For example, within the Northern Ireland context, there exists a close relationship between the development of the *Programme for Government* and the *Executive Budget*. The Belfast Agreement (Northern Ireland Office, 1998) clearly puts a responsibility on the Executive to ensure that, each year, a programme incorporating an agreed budget linked to policies and programmes is developed and implemented. Similar requirements are contained in the legislation relating to both Scotland and Wales.

From the empirical research there was clear evidence in each of the UK devolved institutions that performance measures and performance targets were a significant part of the culture and were widely used and welcomed by politicians (more so than financial accounting information). This is explored most clearly by Ezzamel (2008) in the chapter on Wales where the alignment between mission statements, objectives and targets is examined as well as their linkages between non-financial aspects of performance and the budget (viewed as a process of 'translating'). The targets included in budget documentation provided a link back to objectives, aims and, ultimately, the vision that was often contained in more general planning documents. The proliferation of targets and the focus, by politicians and others, on such targets (observed clearly in Northern Ireland, Scotland and Wales) is seen as underpinning 'political accountability by numbers', as suggested by Ezzamel (2008).

Hyndman (2008) suggests that the greatest scrutiny, and criticism, of such information occurred in Northern Ireland. Hyndman argues that this was possibly related to the fact that many Northern Irish politicians in the devolved

assembly had local government experience before entering the devolved institution: a setting where it is common to use league tables and comparisons. Therefore, the Northern Ireland Assembly might have a relatively high competence in accessing, judging and debating performance information, and therefore be less satisfied, and more discerning, when confronted with such information. Overall this possibly points to the likelihood that as politicians become familiar with using and reflecting on performance information they will become more discerning and demanding, potentially resulting in information systems evolving that are more focused and more used. However, evidence also suggests that the expectations of some politicians in each of the devolved institutions relating to performance management systems may be unrealistically high, particularly over the feasibility of having budgets that are related to measurable outputs. The linking of these aspects of planning may suggest clear and linear input–output relationships that do not often exist in practice, an impression that possibly will be held particularly strongly among politicians who are not overly knowledgeable of accounting issues and have limited awareness of varying cost behaviour patterns and the existence of economies of scale.

Accounting and political actions

The reform of governmental machinery with the introduction of devolution in the UK has been accompanied by central government's espousal of the rationality of NPM in which accounting plays a central part. We have referred above to the difficulties of translating planning documents and financial documents in such a way that they both align and articulate meaningful messages to elected members of these devolved institutions. However, accounting is typically conceptualised by reformers as a neutral tool intended to furnish rational decision makers with appropriate information to make effective and efficient decisions. It is considered that such information can be used by rational decision makers (including politicians) to generate and draw attention to information that guides decision makers in making informed decisions. In many official UK documents, it is assumed that good accounting information provided to decision makers will lead to good decisions that will further the effectiveness and efficiency of the public sector (a usual claim made by NPM proponents). However, to achieve such an outcome, it is necessary that the information is understood and acted upon, not just received, by recipients.

The empirical analysis referred to in this book suggests that there are politicians in each of the devolved institutions in the UK who have an inadequate grasp of the RAB information provided to them. The language of accounting has become significantly more prominent in most countries that have followed NPM agendas. However, and unsurprisingly, this lack of understanding by politicians is particularly prevalent with respect to the more technical financial accounting aspects of RAB, represented at departmental levels by

Schedules 1 to 4: *Summary of Resource Outturn; Departmental Operating Cost Statement; Departmental Balance Sheet; and Departmental Cash Flow Statement* (HM Treasury, 2003). Given this, the ability of accounting to influence decision makers is therefore reduced. However, the research also revealed that some politicians (mainly those with senior positions of responsibility, possibly at ministerial level or as committee chairs and referred to in this research as 'insider politicians') had acquired a fairly detailed, or at least a working, knowledge of accounting and could engage vigorously in debates. Nonetheless, the fact that a number of politicians do not relate to this language (these being referred to as 'outsider politicians'), may result in a restriction in engagement with discussions and debates because of their lack of understanding of accounting. In addition, it has been suggested that the degree of complexity, particularly in some of the 'new' accounting information, at times viewed as unnecessarily complex, makes learning and understanding more problematic. For example, in the case of the traditional financial accounting aspects of RAB in the UK, additional intricate requirements (such as the required Schedule 1 *Summary of Resource Outturn*, and the complex methods that must be used for charging for fixed assets and working capital) make information difficult to understand and use even by those who are familiar with accounting routines (Connolly and Hyndman, 2006).

These features (a general lack of understanding and the complexity) have the potential to undermine both control and democratic accountability in each of the devolved institutions. To an extent, the level of understanding and use of accounting may be a function of time and stability, with the passage of further periods necessary to cement its widespread utilisation in political settings. Such gaps of understanding may be bridged by a process of education. In each of the devolved settings there was evidence of the availability of courses to improve politicians' understanding of accounting issues being provided, but limited evidence of politicians taking advantage of such provision. This lack of understanding may be particularly important in the context of Northern Ireland (the least stable of the institutions, at least between 1999 and 2007). A distinguishing feature of the Northern Ireland devolution arrangements, when compared with Scotland and Wales, is that all major parties are represented in government (on the Executive) through a power-sharing arrangement and there is therefore no official opposition. Heald (2003) argues that this arrangement increases the importance of the Assembly committees (committees which are dominated by 'outsider politicians') in providing questioning and scrutiny (roles normally undertaken by the opposition). The availability to such committees of pertinent, comprehensible and objective information (including accounting information) as the basis for such questioning and scrutiny is fundamental.

Whether accrual accounting, as part of RAB, will ever deliver the advantages claimed for it over cash-based accounting systems (HM Treasury 1994 and 1995), and whether significant numbers of politicians will come to understand accrual accounting and use it as a means of debate and discussion,

remains an open question. At present many politicians in the devolved institutions fail to connect with accrual accounting as contained in RAB. Perhaps a more straightforward accrual accounting system, with less detailed schedules and simpler methods for charging for the use of assets, would help politicians (as well as public sector managers) to engage more. Or conceivably, given the extent of the accounting change, in due course, an embedded system that leads to improved decision making and better democratic accountability will emerge.

Information flows, scrutiny and overload

The establishment of the devolved institutions has brought a significant level of increased activity in scrutiny. The existence of these elected bodies has created a space for democratic debate, discussion and scrutiny of the activities by the local electorates. While this increased scrutiny is a very positive outcome of the existence of these institutions, the downside risk is the phenomenon of information overload. The manner in which the cascade of planning and financial documents emerge as part of the planning process has to be seen in the context of overall levels of information flows in elected assemblies. This has increased dramatically in recent years, given the innovations in information accessibility. The use of electronic communications has enhanced the ability of electorates to seek information or answers to queries from their elected representatives, for example. If this is set alongside an ever more comprehensive and sophisticated planning and accounting system, there is a clear danger of information overload.

It is not uncommon that problems are encountered in information systems in new organisations (and also in established organisations), with information users struggling to identify decisions that have to be made (and information needed to make them) and information providers unsure as to what information can be provided and what is appropriate. Ackoff's (1967) classic paper identified five common assumptions that are made about information systems and then analysed why these may be incorrect. Among the common assumptions made were: management needs more information; managers need the information they want; and giving managers the information they need improves decision making. Ackoff suggested that managers often suffer more from an overabundance of irrelevant information rather than a lack of relevant information, and pointed out that there was a real need for condensation and filtration. With respect to the provision of the information managers want, Ackoff argued that for this to be appropriate the manager must be aware of the decision he or she faces (which was seldom the case). In relation to whether decision making will improve as a result of providing the information a manager needs, it was argued that it depends on whether the manager has the ability to make use of the information.

The above issues were found to be relevant to politicians as key decision makers within the devolved institutions. A frequently repeated theme among

politicians was that there was often too much irrelevant information and it was impossible to deal with all that is available. There were clear opinions expressed that there was the danger of becoming overwhelmed with information. It was often perceived by politicians that providers of information tended to use a scattergun approach, disseminating everything to everyone regardless of individual interests; while providers of information often took the view that responsibility for information overload lay with many politicians' compulsion with having everything that is available, regardless of their ability to use the information (related to one of Ackoff's common errors). These differences possibly suggest that the process of tailoring information to an individual's needs may be extremely difficult, as the information that is perceived as having little value by one individual may be perceived as vital by another. Such tensions may be inevitable, especially in the early years of new institutions.

Finding an equilibrium between the amount and level of detail of information flowing between departments and members proved to be challenging in each of the devolved settings, again particularly in the early days. However, there is evidence that as the process has developed, albeit in an interrupted manner in Northern Ireland, confidence has grown and more appropriate, more customised information has been made available in each devolved institution (illustrating a learning process). Whether or not politicians (other than 'insider politicians') have the expertise to make good use of information, or the desire and incentives to learn about it, is one of the challenges that each of the devolved institutions face (something discussed earlier). Notwithstanding this challenge, there were clear indications from the research that department officials and support civil servants to committees (and the relationships between them) are seen as crucial in a necessary filtering process as they reduce volume and attempt to guide committees towards relevant and important information. This was often much appreciated by politicians. Whether such steering is appropriate and supports democratic accountability is a moot point, as it highlights the issue of who should shape what goes on. Perhaps such overt guidance (or steering) by non-politicians is inevitable in the early stages of new institutions, with the expectation that with the passage of time this will reduce if learning on the part of politicians takes place.

Conclusion

In this book, we have studied the phenomenon of devolved, elected bodies in the UK: the Assemblies of Northern Ireland and Wales and the Scottish Parliament. This study reveals that the emergence of these institutions has contributed to stability and peace (in the case of Northern Ireland), has involved the local electorate and enhanced national identity (in Wales and Scotland) and this has raised the prospect of a fragmentation of the UK with the unexpected outcome of a Scottish Nationalist Executive (self-styled 'Government' of Scotland).

Within the activities of these devolved institutions we have examined the flow of financial and planning information by which these institutions have managed their financial affairs, with international comparators. This part of our study revealed a number of issues, some enduring, some transitional. In the first instance, the information flows within the UK are dominated by the radical reform of government accounting practices by the introduction of RAB. This information is consistent with New Zealand practices, but it differs from the more traditional accounting practices of US state governments and Norway, which have retained cash-based accounting. However, all of the countries in this study exhibited an awareness of the need to go beyond the financial numbers to analyse and report on performance measures – activity statistics, outputs and/or outcomes. In this respect, New Zealand was particularly to the forefront. Second, the planning cycles of budgetary matters follow diverse patterns: the US model exhibits an independence of spirit between US state governments and the US Federal government; both New Zealand and Norway have tightly coupled cycles; the UK system of devolved elected bodies reveals a further level of disparity and this may be over-specified. Third, the volume and complexity of information is such that many key actors on the scene may experience information overload. This is a serious issue for democratic accountability in these institutions. There is a strong emphasis on what programmes expenditure is allocated to, but there is insufficient scrutiny of (1) the setting of strategic priorities and (2) the relating of these to expenditure plans. As a consequence, scrutiny is hampered. One serious outcome is that elected representatives may experience a disenchantment, a feeling of remoteness, and an inability to influence budget decisions other than at the margins. This is a most significant weakness of existing systems of ensuring public accountability – a major issue for devolved institutions which are committed to transparency in public finances.

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