Budgeting and governing for deficit reduction in the UK public sector: act three ‘accountability and audit arrangements’

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This paper explains how the UK central government has changed accountability and audit arrangements for local government in England, while retaining its approach to setting annual budgets within the context of multi-year spending reviews. It highlights how dismantling the institutions and processes that monitored outputs and outcomes for spending, such as public service agreements and comprehensive area assessment, meant that top-down accountability became focused overwhelmingly on financial conformance rather than organizational performance for local government. Supplementary reforms to increase the transparency or ‘visibility’ of public administration, and thereby enable greater bottom-up accountability, have resulted in a performance assessment system that is neither rigorous nor standardized. The overall result is a weakening of local accountability arrangements.

Keywords: Accountability; audit; budgeting; central government; local government; public sector.

In a recent issue of Public Money & Management, Ellwood (2014) highlighted the significant changes to audit and accountability arrangements for public services in England (including local government) as a result of the Local Audit and Accountability Act 2014. Indeed, since 2010 the UK government has dismantled and replaced much of the previous arrangements for accountability and audit in English local authorities.

This paper analyses the impact of these reforms on English local authorities in the context of the UK government’s wider approach to budgeting and governing in the public sector. It uses a theatrical metaphor to illustrate how this approach constitutes three separate ‘acts’, each of which are separate but nonetheless need to be considered together in order to understand the overall arrangement:

• Act 1 is the spending review that sets out a planning framework for income and expenditure levels over the medium term as part of multi-year planning (Ferry and Eckersley, 2011).
• Act 2 is the annual budget that enables detailed policy choices with associated financial impacts and implications (Ferry and Eckersley, 2012).
• Act 3 constitutes the accountability and audit arrangements that afford confidence in the assurance and transparency of external communication and internal management practices. These arrangements also provide reassurance about the competence of those charged with governance; financial conformance in the stewardship of public funds; and enabling performance in service delivery (Ball, 2012).

In times of uncertainty there may also be a prologue to the acts in the form of an emergency budget (Ferry and Eckersley, 2012).

This paper focuses on act 3 of budgeting and governing—the accountability and audit arrangements—and concentrates on the local government context.* In terms of accountability, the audit has been a traditional technology to build confidence in stewardship

*In a previous issue of Public Money & Management, Ellwood and Garcia-Lacalle (2012) discussed the implications of reforms to these arrangements for NHS trusts.

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of public funds and value for money (Hopwood, 1984; Power, 1997; 1999; Humphrey et al., 2011).

Background to local audit and accountability arrangements in England
In the UK, the New Labour government that was elected in 1997 introduced an extensive set of top-down arrangements for accountability of local government that led to a significant increase in public auditing. These fitted into the wider context of comprehensive spending reviews, which provided multi-year frameworks for public expenditure between 1998 and 2010. Within these frameworks the annual budget was used to assess financial stewardship, but at the same time spending decisions had to be linked to outputs and outcomes set out in public service agreements (PSAs), through which the Treasury held central government departments to account in performance terms. Each department then sought to ensure that its related agencies, non-departmental public bodies and local authorities focused their attention on delivering the objectives set out in its PSA by setting them specific targets that (theoretically at least) would help to contribute towards desirable outcomes.

The Department for Communities and Local Government introduced various performance management frameworks—best value, comprehensive performance assessment (CPA), and comprehensive area assessment (CAA)—to monitor English local authorities in this regard. The Audit Commission, the audit body for local authorities in England, conducted annual assessments to determine whether individual local authorities were delivering central government objectives, and produced various reports and scorecards alongside their judgements (Seal and Ball, 2005; Woods and Grubnic, 2008; Abu Hasan et al., 2013). Local authorities were also encouraged to benchmark with one another in order to share ‘best practice’ and stimulate improvement through a competitive process—something that most of them engaged in for reasons of external accountability (Bowerman et al., 2001).

The hierarchical targeting approach has endured in some areas—most notably the health sector—as a means of ensuring that central policies are implemented. However, the coalition government dismantled many of the performance accountability frameworks for local authorities, including PSAs and CAA, shortly after taking office in 2010, and also abolished the Audit Commission that oversaw the whole system. Government ministers put forward several reasons for these reforms, including a belief that the Audit Commission had ‘lost its way’ by focusing too much on local government improvement rather than financial audit, and an assumption that the changes would save money in a time of austerity (Ellwood, 2014; Timmins and Gash, 2014). In addition, ministers espoused a desire to give councils the freedom to develop their own performance frameworks as part of its ‘localism’ policy, and promoted the idea of a ‘Big Society’ that could assume responsibility for some of the functions previously undertaken by the state. This new approach was illustrated by the Localism Act 2011, which granted local authorities a ‘general power of competence’ (and thereby enabled them—for the first time—to carry out any activity that they consider to be in the interests of the locality), and also gave voluntary organizations the right to bid for greater control over public services (HM Government, 2011).

The result was that only the spending review was retained to manage annual budgets, alongside a financial audit of local government with some value-for-money studies, which were overseen by the National Audit Office (NAO). Although government ministers have devolved responsibility for operational performance management to councils, they have maintained their tight control over local government finance since the 2010 election. Local authorities are still heavily dependent on central government for funding, statutorily required to deliver a range of public services and have to agree a balanced budget every year, in spite of the scale of austerity measures. Indeed, it is notable that government ministers have asked authorities to freeze council tax, the only significant source of revenue over which they have any theoretical control, in every financial year since the 2010 election—and any authority that wishes to increase its council tax by a level that ministers feel is ‘excessive’ now needs to finance and organize a local referendum and gain binding approval for its decision (Ferry et al., 2015a).

From a top-down accountability perspective therefore, local government is now assessed on financial conformance alone—there is no hierarchical provision for monitoring outputs or operational performance (Ferry et al., 2015b). In other words, auditors focus on whether councils adhere to their statutory requirements to deliver balanced budgets (local public service inputs) rather than the extent to which they deliver high-quality operational outputs or outcomes. In place of the performance
monitoring arrangements, the government introduced a number of bottom-up accountability mechanisms, ostensibly to give citizens greater access to information through data transparency, and thereby help them to hold local public services to account more directly. As O’Neill (2006), Eckersley et al. (2014) and Etzioni (2014) have pointed out, however, ‘transparency’ initiatives of this nature often reduce accountability because non-expert citizens are unable or unwilling to analyse the sheer volume of data at their disposal—and it may also be difficult to access channels for complaint and redress.

This paper now briefly reviews the academic literature on accountability for public sector budgeting and governing, before considering the UK government’s accountability and audit arrangements for local government through an explanatory study.

**Public sector accountability**

This paper draws on public administration aspects of accountability theory in accounting research to consider budgeting and governing in central and local government arrangements in England. It illustrates how central government has shifted from centralized top-down accountability arrangements for local government performance (using the Audit Commission) towards an ostensibly bottom-up approach based on data transparency and direct contact with citizens.

This is important because it has implications for what data is visible and to whom (Hopwood, 1984) and therefore changes the relationship between the organization that is being held to account (the ‘agent’) and the actor on whose behalf it operates (the ‘principal’) (Mayston, 1993). Notably, however, central government has retained its hierarchical control over financial conformance, since local authorities are still required to deliver statutory services and set balanced budgets—despite significant cuts in their funding—and the NAO has taken on responsibility for this, as well as more generally assessing value for money in local public services.

Sinclair (1991) defines public accountability as ‘a more direct answerability to community’ (p. 222) that involves activities such as answering to the public concern about how government programmes are designed, and ensuring that public money is spent effectively and in accordance with appropriate governance safeguards against corruption. In the local government context, this ‘community’ should be interpreted as local residents—the ‘principal’—who are served by the ‘agent’ (the council) in Mayston’s (1993) terms. This suggests that residents should be given access to relevant information about their council’s activity and performance, as well as the opportunity to initiate changes through the ballot box if this information indicates poor performance, financial incompetence or a lack of effective governance. As such, we can see how auditing offers potential as a top-down accountability technology, in terms of governing economic and social life (Radcliffe, 1999). For example, Funnell (2011) suggests the auditor performs a crucial independent role to uphold trust in public administration.

Nevertheless, some have questioned whether accountability is too important to be left to accountants and auditors (Radcliffe, 2008; Ferry and Eckersley, 2015). Keeping with this, it has been suggested that data transparency could lead to a new era of bottom-up accountability that enables a generation of ‘armchair auditors’ (albeit non-professionalized and fragmented) to exercise more comprehensive democratic oversight of public spending (Pickles, 2011). Indeed, it was only after the *Daily Telegraph* began publicizing details of MPs’ expenses in 2009 that a number of senior politicians were held to account over their use of public money, and five parliamentarians eventually ended up in prison for abusing the system (BBC, 2013). At the local level, media organizations and pressure groups, such as the Taxpayers’ Alliance, have also used public spending data to raise questions about how public bodies are allocating their resources (see, for example, Sinclair and Taylor, 2008).

**Accountability and new public management**

In recent decades, the UK government has relied on new public management (NPM) ideas for shaping public service policies and programmes in improving delivery (Hood, 1991; 1995). These include marketization, privatization and the private finance initiative (PFI)/public–private partnerships (PPPs), which were undertaken in the name of greater efficiency, value for money and accountability (Hopwood, 1984; Sinclair, 1991; Lapsley, 1999; Broadbent and Guthrie, 2008; Shaoul et al., 2012). Although most scholars agree with the objectives of these reforms (Broadbent and Guthrie, 1992; Lapsley, 1999), they have questioned the extent to which they have been achieved (Broadbent et al., 2003a; 2003b) and highlighted how democratic accountability is reduced when state officials have less direct control over public services (Pollitt, 1986;
Indeed, Lapsley (2009) specifically targeted NPM for its shortcomings, questioning the applicability of private sector performance criteria for the public sector and arguing that the agenda has failed to deliver its proposed benefits. In particular, he argues that it has resulted in an entrenched ‘audit society’, which may mean organizations become too focused on compliance and devote their resources to those activities that can be measured—to the detriment of other priorities. Tragically, these fears proved to be well-founded in the case of the Mid Staffordshire NHS Foundation Trust, where managers focused overwhelmingly on meeting central targets to help their hospital achieve NHS foundation status and patient care was severely neglected as a result (Francis, 2013).

An underlying issue is also the difficulty of protecting the public interest when public goods and services are delivered by a third party (Broadbent et al., 2003a; 2003b). Contracts have been used to formalize third party roles in public service delivery (Hood, 1995; Lapsley, 1999; Broadbent et al., 2003b), and they represent the government’s legal right to ensure public accountability is not compromised. However, the complexity of many public contracts, as well as their extremely lengthy time-frames, gives incumbent providers a major advantage over any potential challengers (Broadbent et al., 2003a; 2003b; Demirag and Khadaroo, 2008) and exacerbates the lack of democratic accountability (Pollitt, 1986).

These issues of accountability theory are considered next in the context of recent announcements on arrangements for national budgeting and governing in the UK that have implications for local government in England.

Analysis

Acts 1 and 2: The spending review and budget

In June 2010, the Chancellor of the Exchequer gave an ‘emergency’ budget speech only six weeks after the coalition government came to power. This was the prologue of what was to come concerning the nature and level of public debt, and associated need for deficit reduction through initial spending cuts and tax increases (HM Treasury, 2010a).

Following on from this emergency budget, the October 2010 spending review provided a framework for reducing public expenditure levels between 2011/12 and 2014/15. In terms of austerity management, the spending review set out the longest prolonged reductions in public spending since the 1920s (HM Treasury, 2010b; Ferry and Eckersley, 2011; 2012) and was the UK’s first attempt at multi-year financial planning in a time of austerity. This is a difficult undertaking, since revenue streams from taxation are uncertain and spending plans therefore need to be flexible, and there is an overriding requirement to reduce the public deficit (Hood, 2010; Pollitt, 2010).

Subsequent annual budgets need to be considered in the context of this spending review, which set out a framework of rules for financial decision-making in forthcoming years. In addition, the government was reluctant to further upset the financial markets by announcing major changes to fiscal policy. However, the spending review was sufficiently flexible to allow budgets to respond to emerging developments, such as slower than expected economic growth, and initiate changes to try and address these issues (Ferry and Eckersley, 2012). Throughout this period, however, the government’s overwhelming priority has been to reduce the size of the public deficit.

Act 3: Accountability arrangements

Any changes to the relationship between the spending review, annual budget and associated arrangements would have implications for accountability in English local government, partly because they could alter the scope of activities that should be incorporated into any accountability exercise or process. For example, if the prime aim of the government is to reduce expenditure, the extent to which public bodies (including local government) have been able to keep within reduced budgets should also be the overriding focus of any audit exercise.

Traditionally, and more so since the formation of the NAO in 1983, accountability in the UK public sector has focused on financial conformance as a minimum, through an annual financial audit of Whitehall departments that is supplemented by value-for-money studies (Dewar, 1991). Until the 2010 election, the approach became progressively more centralized with further top-down pressures, and focused increasingly on operational performance alongside financial conformance. For example, under the New Labour government this was expressed in the form of spending reviews for multi-year planning, within which annual budgets had to be set (Ferry and Eckersley, 2011; 2012); PSAs that linked funding to department outputs and outcomes; and departmental capability reviews that assessed management competence for delivery.

In particular, the creation and use of PSAs...
in the context of resource allocation was a key part of each of the New Labour government’s comprehensive spending reviews. These PSAs were cascaded down from Whitehall to the relevant ‘delivery’ organizations, such as local government, in the form of specific objectives that would contribute to the overall aims of the parent department. For example, both the CPA and CAA frameworks required English local authorities to report on their progress against a range of indicators that (theoretically at least) monitored how well they were delivering outcomes on behalf of central government. The Audit Commission carried out these very detailed assessments and judged the performance of local authorities against these targets on an annual basis.

**Post 2010: declining local accountability**

On taking office, the coalition government’s rhetoric of localism and the Big Society suggested that they wanted less of a top-down approach to performance management (DCLG, 2010), and devolving the ability to develop their own frameworks chimes with Sinclair’s (1991) idea that councils should be more answerable to their communities. In addition, the climate of austerity meant that incoming government ministers were keen to transfer responsibility for deciding on financial cutbacks to the local level, as well as reduce the cost of performance monitoring systems (Ferry and Eckersley, 2011; Lowndes and Pratchett, 2012; Timmins and Gash, 2014). The October 2010 spending review and March 2011 budget provided potential technologies to do so, although not without significant risks, by allowing the government to reduce spending on the audit and accountability structures that were previously in place for local authorities, and encourage a new bottom-up approach to develop. It therefore retained the spending review (and its associated departmental expenditure limits) and the annual budget that concentrates on financial conformance, but set about dismantling much of the architecture (including the Audit Commission and CAA) that had assessed in much detail whether local government delivered desired outcomes. Although the Audit Commission’s responsibility for overseeing local authority financial audits was transferred to the NAO (and the NAO has also taken on the role of undertaking high-level value-for-money assessments of local public bodies), its hierarchical detailed performance monitoring function simply disappeared.

To replace these structures, the government introduced a number of reforms to stimulate accountability from the bottom-up, in keeping with its rhetoric of ‘localism’ and the Big Society. Most notably, its drive for increasing the ‘transparency’ of public administration, which builds on the Freedom of Information Act 2000 and previous ‘open government’ initiatives, has resulted in the publication of vast amounts of data relating to public bodies. Ministers stressed the importance of giving private citizens, or ‘armchair auditors’, access to information about how their taxes were being spent (Pickles, 2011). For example, every central government department is now required to publish details of tenders or contracts worth over £5,000, and the Treasury’s mammoth Combined Online Information System (COINS) database, which lists over 24 million financial transactions involving government departments, was published online in June 2010 (Curtis, 2010). In addition, all local authorities in England have been asked to publish details of each transaction worth over £500, as well as the salaries of senior staff and other lines of data.

Although these initiatives may initially appear to improve the transparency and accountability of public bodies, the reality is very different (Eckersley et al., 2014, Ferry et al., 2015b). Most obviously, processing and analysing these huge gigabytes of data will require significant resources and expertise, which will be beyond the vast majority of ordinary citizens (see also O’Neill, 2006; Etzioni, 2014). As a result, the public will be less aware of how well their local council is performing, and therefore less able to hold local officials to account. Crucially, these reforms have coincided with the deepest reductions in public expenditure for nearly a century. This means that there will be no expert assessment of how service outputs may deteriorate due to funding cuts, and therefore reduces the amount of evidence that critics of the coalition government’s austerity policies can use to support their arguments.

Nevertheless, for now at least, the Local Audit and Accountability Act 2014 formalized the end of the Audit Commission for England and Wales and heralded new audit arrangements (more akin to a private sector model) for local authorities. This was initially promoted by the coalition government as a way of generating (potential) cost savings, as well as to deal with political suggestions that the Audit Commission had lost its way.
However, such views have been challenged by preliminary scrutiny from an ad hoc parliamentary committee in 2013, which suggested that not only were these changes unlikely to save any money but they would also challenge the integrity of the audit system itself. In particular, the legislation was criticized for abandoning a key founding principle of public audit, namely that public bodies must not be allowed to choose their own auditors (Ellwood, 2014). More importantly for the purposes of this paper, the Act confirmed that future local authority audits would be overseen centrally by the NAO and would focus solely on financial management; the previous national frameworks to monitor council performance in detail were not replaced.

Conclusions
This paper has investigated the changing nature of accountability and audit arrangements for English local authorities in the context of national budgeting and governing in the UK. In particular, it has considered how the government has changed accountability practices through reducing top-down monitoring of outputs and outcomes, and ostensibly replaced it with a more bottom-up approach that chimes with ideas of the Big Society and localism. In contrast to their decision to devolve performance monitoring functions, government ministers have maintained a top-down approach to overseeing financial conformance, in that councils are still heavily reliant on central funding, are required to set a balanced budget every year and undergo annual audits that focus solely on financial competence. In this way, the spending review and annual budget are still subject to formal and professional scrutiny through financial audit.

However, audits no longer assess performance in terms of what outputs and outcomes have been achieved, nor the competence of public bodies in policy and service delivery. PSAs and departmental capability reviews previously met this need for central government, and Audit Commission-led inspections performed a similar function for local authorities. Now that this architecture has been dismantled, the domain of formal accountability has been narrowed, so that it focuses on financial budget aspects. In place of formal performance assessments, government ministers have introduced bottom-up channels for accountability, facilitated through the transparency agenda, which increase the amount of data that are publicly available. Although government ministers claim that this will enable citizens to hold public bodies to account without the need for intermediaries such as the Audit Commission, in reality these reforms will only obscure the negative impact of funding cuts on public service performance. This is because these data will be very difficult for the everyday citizen to process and analyse (Eckersley et al., 2014), meaning that local accountability is weaker, rather than stronger, as a result.

In this context, we support Ellwood’s argument that the Local Audit and Accountability Act 2014 has significant implications for autonomy, governance and accountability of public services, and we support her call for a much more robust debate. Indeed, as reported by Thatcher (2014), the chair of the Public Accounts Committee and Labour MP for Barking Margaret Hodge stressed at the Chartered Institute of Public Finance and Accountancy’s (CIPFA) 2014 annual conference that:

*We need a commission looking at whether public audit remains fit for purpose right across the public sector or whether or not we should think about the arrangements we have to protect the taxpayers’ interest.*

Perhaps unsurprisingly, political parties did not respond to the committee’s report by putting the audit and accountability arrangements for local public services at the forefront of their campaigns for the UK’s May 2015 general election. Regardless of the outcome of the election, however, councils will continue to face austerity pressures for the foreseeable future. This will have a significant impact on the quality and scope of local public services and could even mean that some authorities are unable to fulfil their statutory duties. Such a development would probably lead to calls for the return of a centralized monitoring system to ensure that local bodies are still providing basic services to their residents. Therefore, although the Audit Commission is unlikely to rise from the ashes in its previous form, it may well be the case that the next government feels compelled to create a similar inspection capacity and capability to respond to public concerns about the performance of local services.
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