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Kerslake Review of Her Majesty's Treasury July 2016

Written evidence submitted by
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We welcome this *opportunity* to submit written evidence to the Kerslake Review of Her Majesty's Treasury. This reply draws on our recent published academic work on governing and budgeting in public services and senior level personal experience of both central government and local government accounting practices.

The focus of our response is that there are three main interconnected activities for central government governing and budgeting practices. These are the spending review, budget, and accountability and transparency arrangements, and it is important that they are not treated in isolation from one another. First, the spending review sets out a framework for income and expenditure levels over the medium term as part of multi-year planning (Ferry and Eckersley, 2011). The Conservative government's spending review after 2015, like its forerunners by the Coalition government 2010-2015 and New Labour government 1997-2010, is considered to provide a stable framework within which the government can plan, construct and implement (in other words 'constrain') the annual budget. This veneer of stability espoused by the spending review has afforded an external legitimisation to decision making, whether in a period of growth or recession.

Second, the annual budget enables detailed policy choices with associated financial impacts and implications (Ferry and Eckersley, 2012). The UK government may set its annual budgets within the context of multi-year spending reviews, but it is worth noting that government has been able to announce policies in the annual budget that sit outside and do not breach the spending review framework. This is because the budget can make changes to policy, such as through the use of entitlements and transfer of roles to non-state actors, while remaining within the spending review's boundaries. As such, the executive the budget process remains an enabler of changing circumstances to balance annual flexibility with multi-year stability in public spending.

The accountability and audit arrangements afford assurance and confidence in the use of public funds. Although the UK central government has retained its approach to setting annual budgets within the context of multi-year spending reviews, and scrutiny through the Public Accounts Committee hearings on groundwork by the National Audit Office, it has made significant changes to accountability and audit arrangements for local public bodies in England in recent years, including local government, police, fire and the NHS (Ferry and Murphy, 2015). Indeed, taking local government as an example, the dismantling of institutions such as the Audit Commission and the scrapping of performance management frameworks and processes that monitored outputs and outcomes for spending (such as public service agreements and Comprehensive Area Assessments) meant that top-down accountability became focused overwhelmingly on financial *conformance* rather than organizational *performance* (Ferry and Eckersley, 2015a).

Supplementary reforms that were intended to make up for the reduction in accountability arrangements, such as the requirement to increase the transparency of public administration through on-line publication of all transactions over £500 by local authorities, and thereby enable greater bottom-up accountability with citizens acting as ‘armchair auditors’, have resulted in a performance assessment system that is neither as rigorous nor as standardized as its predecessor. The overall result is a weakening of local accountability arrangements (Eckersley, Ferry and Zakaria, 2014; Ferry and Eckersley, 2015a, 2015b; Ferry, Eckersley and Zakaria, 2015; Worthy 2015). At the same time, local authorities have become focussed on budgetary stewardship by holding down input costs in the face of austerity pressures. However, the scale of funding cuts required means this strategy is unlikely to be successful over the longer term. So, local authorities need greater freedom to generate revenue in order to facilitate innovation and develop more sustainable business practices and service models (Ferry, Coombs and Eckersley, 2017). In the meantime, as they await a promised increase in control over revenue, local authorities have begun to involve citizens more in decision-making processes and service delivery in order to increase their capacity to achieve policy objectives (Ahrens and Ferry, 2015; Eckersley, 2016), and grassroots organisations have become more vocal in challenging budget decisions (Ahrens and Ferry, 2015).

During times of uncertainty the central government may also announce emergency budgetary measures (Ferry and Eckersley, 2012). Yet, regardless of the economic climate, the practices of auditability and risk management now pervades all government activity (Power, 1997,

1999). Having said that, the perceived lack of preparation for 'Brexit' from the EU does suggest what we have thought for some time, namely that risk management represents a fourth pillar of governing and budgeting, and needs to be made more real than a mere tick box exercise. Together the overall arrangements - the 3 Acts of Spending Review, Budget, and Accountability and Transparency, and potentially a 4th Act of Risk Management - address governance, financial conformance and performance (Ball, 2012).

With regards to legislation and the budget process, research has been carried out into comparative contexts (Wehner, 2010), international best practices (OECD, 2002) and pragmatic steps around implementation (Heald, 2012). From our perspective, a point we would want to make is that it is also important that Her Majesty's Treasury, as the Finance Ministry and guardian of the purse strings, remains strong. However, this should not be to the extent where it becomes overbearing and can dictate to advocates of spending departments policies and priorities in a dictatorial fashion. The private government of public money requires pragmatism and compromise, and this has been part of the culture in the UK government for decades or even centuries (Hecló and Wildavsky, 1974). Given that the state is adopting increasingly complex mechanisms to achieve policy objectives, this is relevant now than at any point in the past. For example, it is important to understand the role of the devolved parliaments and assemblies, departmental agencies, private contractors and the nascent combined authorities, particularly where they may have greater control over their revenue streams. A strong centre will be even more important under Brexit, and so the importance of amenable central and local government relations has to be encouraged to ensure policy hopes are not dashed in implementation.

4th July 2016

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