



Findings from the Economic and Research Council's
Research Programme on *Devolution and Constitutional Change*



Devolution Briefings

Money Matters: Devolution and Resource Accounting and Budgeting

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Key points

- Devolution has significantly contributed to a more, transparent, collaborative and democratically accountable government in Northern Ireland, Scotland and Wales.
- New forms of government accounting and budgeting have been introduced in the UK, known as Resource Accounting and Budgeting (RAB), which record expenditure as it is incurred and income as it is earned during an accounting period and seek to integrate objectives and targets into accounting procedures
- However, most politicians have limited knowledge of what RAB is, and is intended to do, excepting some familiarity with its focus on targets and performance
- Most expertise in RAB sits with professional experts (government accountants and auditors), and there is a danger of democratic processes becoming increasingly mystified rather than more transparent.
- There is a need for the complexity of new forms of government accounting to be taught to elected representatives. But there is little evidence of interest or inclination to do so.

Introduction

This briefing reports research on the emergence and development of accounting practices and the meanings attributed to these developments for democratic accountability. In order to study the link between accounting and democratic accountability in the devolved institutions we have explored the annual financial budgeting, performance management and performance audit reporting processes, and the link between budgeting and reporting. We examined 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.

Devolution, Accountability and Accounting

Devolution has fostered the implementation of significant changes and innovation in the devolved institutions. Devolution has significantly and unequivocally contributed to a more consultative, transparent and democratically accountable government in Northern Ireland, Scotland and Wales. A significant change resides in the emphasis placed on accountability, power-sharing, participation and transparency.

Among the several purposes of devolution, one of the most important is to enhance political responsiveness to citizens in the respective countries within the UK. Devolution was intended to improve and increase transparency and democratic accountability in comparison with the established practices in Whitehall and Westminster. The devolved assemblies (in Wales and Northern Ireland) and parliament (in Scotland) have developed their own processes and procedures for discharging accountability, which are different from those of the Westminster parliament. A key innovation is the more active and influential role attributed to the subject committees, especially with regards to financial scrutiny and participation in the budgetary process.

Budget proposals and spending reviews are intensely scrutinised. In Northern Ireland, the Finance and Personnel Committee is responsible for advising and assisting the Minister of Finance and Personnel in policy formulation, policy development, and has a 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.

The Scottish arrangements are similar to those in Northern Ireland. The Finance Committee is responsible for addressing overall budget priorities and 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 sessions on budgetary issues. Then, the Executive should take the outcome of the plenary debate into consideration in its financial plans.

Wales is different from Northern Ireland and Scotland in that it does not have a Finance Committee. The budget proposals are scrutinised 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.

Thus, accounting practices have a key role to play in informing and shaping the democratic accountability of actions for key agents in the new devolved executives and legislatures in Northern Ireland, Scotland and Wales. This briefing aims to draw attention on the role of Resource Accounting and Budgeting (RAB, see Box 1 for a list of key terms) within the new devolved parliament/assemblies. The use of planning systems integrating financial and management accounting and historic and forward looking figures, as in RAB, indicates a concern in government for tighter coupling between plans and actions and increased effectiveness of public policy implementation.

Box 1: Key Terms	
Accruals Accounting	A method of recording expenditure as it is incurred and income as it is earned during an accounting period.
Cash Accounting	A method of accounting which records cash payments and cash receipts as they occur within an accounting period. This is the method government used before it moved to accruals accounting.
Resource Accounting and Budgeting (RAB)	RAB is an accruals-based accounting and budgeting system that also seeks to integrate objectives and targets into the accounting procedures.
Resource Accounting (RA)	This is a set of accruals accounting techniques for reporting on expenditure by departments and the relationships between expenditure and departmental objectives. RA replaced cash accounting that recorded payments and receipts when they were paid or received.
Resource Accounts	Resource Accounts are prepared annually and present the financial results of the department for the relevant year. They are prepared on the basis of generally accepted accounting practice and in accordance with the Resource Accounting Manual.
Resource Accounting Manual	The Resource Accounting Manual is the authoritative statement of RA principles against which departmental Resource Accounts are prepared and audited. The manual is based on UK GAAP adapted where appropriate to take account of the public sector context, and is endorsed by the FRAB, an independent board set up to advise the Treasury on the application of financial principles and standards contained in the manual. The Board continues to keep the manual under review.
Resource Budgeting (RB)	RB involves using RA information as the basis for planning and controlling public expenditure. Unlike the previous cash-based approach, it requires departments to consider the costs of capital consumption, and to match their costs to the time of the related service delivery activity.

From Cash Accounting to RAB

The process of changing public sector organisations' accounting practices from cash accounting to RAB started 10 years ago (see Box 2 for the timeline for the introduction of RAB). The need was recognised for more uniformity in the system, for instance by clearer definition of the reporting entities and continued publication of performance information in annual reporting. 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.

The switch to RAB was regarded as a fundamental change for improving decision-making processes, strengthening accountability, proper control and management of public expenditure. RAB 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 the devolved assemblies/parliament have implemented RAB.

Box 2: Timeline for the Introduction of RAB	
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, A Consultation Paper</i> 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'.
2001/2002 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.

*This was restricted to one year in NI due to departmental restructuring related to devolution.

Key questions

Our research questions concerned the role accounting plays in democratic accountability, how accounting information is used in the devolved institutions, and who are the main users, with a specific focus on RAB. Alongside documentary analysis we discussed these questions directly with key actors in the devolved legislatures of Scotland, NI and Wales. These included members sitting on oversight committees, particularly those parliamentary select committees with overall responsibility for major parts of public expenditure programmes such as health care, education and local government. We also observed these committees in action. We interviewed ministers and other members of the devolved governments along with audit officers, advisors, civil servants and other experts (Box 3).

Box 3: Interviews by devolved unit and organisation (May 2004)				
	NI	Scotland	Wales	TOTAL
Parliament	8	14	10	32
Executive	2	3	8	13
Audit Institution	2	3	0	5
Others	6	2	0	8
TOTAL	18	22	18	58

Main findings

1. There is a definite link between accountability and devolution. Devolution has provided the framework under which managerial and political accountability can be strengthened. The devolved administrations across the UK are fully

accountable for managing and controlling their public expenditure, and for enacting and providing detailed accountability and audit procedures, as specified in the devolution acts. Among the participants there is a general consensus about the benefit of devolution as a mechanism that has intensified accountability and made it stronger. This improvement reflects an increased level of scrutiny of ministerial activity. Scrutiny has been enhanced as a result of providing the members of parliament as well as the electorate with the means for understanding better what the government does and why. Enhancing and broadening the Subject Committees' responsibilities has played a major role in improving the accountability process, as they have been active in scrutinising the Executive's members and civil servants at work, generally in an open and collaborative climate. This has proved particularly relevant for the budgetary process. More attention has been given to developing a process of dialogue between the political actors (including civil servants) and citizens, and this has a positive impact on the content of information shared among parliament, executive, civil servants and the public. The practical operational arrangements as well as the resources made available to committees and individual MPs have a positive impact on the accountability process:

- Better flow of information and less controlled availability of it for committees and backbenchers;
 - Civil servants have more opportunities to be in direct contact with the members of the parliament/assemblies, as they can be invited to give evidence and to answer questions by the committees.
2. Overall, the politicians interviewed expressed positive comments on the benefits of RAB. However, when asked about their knowledge of RAB, they provided similar patterns of responses, which can be summarise as follows:
- There was limited knowledge of what Resource Accounting and Budgeting (RAB) is, and is intended to do. On one hand, politicians occupying a ministerial position, those involved in departmental/subject committees engaging in financial, auditing and accountability issues, and those politicians who had prior experience of accounting and accountability ('insider politicians') were able to formulate a clear understanding of a range of potential benefits and drawback, even though some of them had some difficulties in fully grasping the technicalities of RAB. On the other hand, 'outsider' politicians knew little about RAB. Politicians found it difficult to identify what RAB is, what are its purposes and whether its implementation has made a difference in the availability and meaningfulness of financial information and in the process of discharging accountability.
3. Most expertise in RAB sits with professional experts (government accountants and auditors).
- Many politicians who are not interested or versed in the intricacies of accountability, financial and accounting issues rely on the expertise of the more knowledgeable colleagues, or on the advisers and researchers who filter and provide the relevant information to them. This leads to a situation in which a small group of experts occupies a pivotal position as they are able to question and understand financial issues and to advise

other members. This situation can pose a threat to democratic processes of becoming increasingly mystified rather than more transparent.

Conclusions

Based on the study of the first four years of the life of devolved parliament assemblies, it is possible to affirm that devolution has made a significant and unequivocal contribution to strengthening accountability in government. However:

- Most politicians interviewed experienced information overload. This is an important challenge to address for providers of budgeting and accounting information in these settings. The communication process has been considered by some elected members to be inadequately structured, with too much financial documentation that in some instances does not tie up together. The sheer volume of the information provided has been considered problematic, and there has been general consensus among the interviewees on the need to improve the quality of the information and to make it sharper and more focussed.
- Despite the fact that politicians may not be able to explain the nature and purpose of RAB, and how its implementation has made a difference in comparison with cash accounting, they were interested in targets and outcomes, which are key features of RAB. Overall positive effects were glimpsed, with a desire for performance information. However, most laymen politicians experience the information as too complex and incomprehensible. The complexity of new forms of government accounting means that its features need actively to be taught to elected representatives. There is little evidence of interest or inclination to do so, however, which makes this a bigger challenge.
- Both devolution and RAB are in their infancy. There is a need for more consistent appraisal/review of how these processes interact on a continuing basis.

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The Devolution and Constitutional Change Programme was set up by ESRC in 2000 to explore the series of devolution reforms which have established new political institutions in Scotland, Wales, Northern Ireland, London and the other English regions since 1997. It has commissioned 35 projects around the UK to carry out top-class academic research and to contribute to the policy debates surrounding devolution.

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