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The governance of public bodies in times of austerity

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A B S T R A C T

Private sector governance arrangements have been imported into UK public bodies under the influence of New Public Management reforms. This paper draws on a cohort study of 14 public bodies to assess the appropriateness of this practice and the impact of fiscal austerity during the study period of 2010–16. Based on multiple sources, including interviews with Chairs and Chief Executives, it shows that, though similar to private corporate Boards in appearance, public Boards are often excluded from the strategy role. They are also vulnerable to the elastic definition of policy over which Ministers assert dominance, thereby blurring accountability. It demonstrates the tension between vertical accountability to government principals and horizontal accountability to stakeholders. During the study window, public bodies were abolished, broken up, merged, reconfigured or taken back into core government, as the UK Government imposed austerity measures to reduce the size of the fiscal deficit and to diminish government roles in delivery, financing and regulation of public services. Surviving public bodies in the study suffered deep budget cuts and less autonomy from central control. These findings are interpreted as evidence of the re-territorialisation of the UK public sector, with accruals accounting and accounting consolidation practices playing a facilitating role.

1. Introduction

Public bodies occupy ambiguous spaces in the architecture of government. Action taken to strengthen private sector corporate governance following a number of publicised failures has shaped developments in the United Kingdom (UK) public sector. The assumption that the private sector provides suitable governance models has led to institutional arrangements and procedures that are very similar to those in the corporate private sector. However, two specific issues arise: the public sector context differs in important aspects; and there is marked heterogeneity of public bodies (e.g. size, purpose, activities, political sensitivity) to which the default Board model has been applied.

Public bodies are public sector organisations operating at arm's length from Ministers and government departments. In the United Kingdom they take a variety of forms, including Non-Departmental Public Bodies (NDPBs), public corporations, non-ministerial departments, public limited companies, and National Health Service (NHS) bodies.¹ All of these have an appointed Chair and a Board comprising Non-Executive Directors and in some cases Executive Directors. They are legally separate from the government department which acts as their 'sponsor' and which retains various powers to control and influence their activities (Cabinet Office, 2016a). Executive Agencies also fall within a broader definition of public bodies but, although they have a degree of managerial and

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E-mail address: david.heald@glasgow.ac.uk (D. Heald).¹ Explanation of differences between these legal and organisational forms is provided in the Cabinet Office's annual publication *Public Bodies* and in Cabinet Office (2016a).<https://doi.org/10.1016/j.bar.2017.11.001>

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financial separation, legally they remain part of their government department and do not have independent Boards. They are therefore excluded from this study.

Public bodies are an enduring feature of government in all countries. The Institute for Government has identified three reasons for their creation in the United Kingdom (Gash, Magee, Rutter, & Smith, 2010):

- to depoliticise decision-making and build public trust by increasing the actual and perceived independence of decisions where political influence is seen as undesirable or destabilising
- to increase managerial freedoms, including freedom from civil service norms and freedom to focus on a specialist function rather than being a low-priority area within a government department
- to allow government to access external skills and expertise

There is also an academic literature which emphasises different motivations, for example hiding the size of government and public employment numbers, and protecting Ministers from blame (Hood, 1978).

There has been an increasing focus in recent years on reforming the governance and accountability of public bodies and this has given rise to a literature emanating from parliamentary enquiries, government committees, academic studies and think-tank reports (Dommett, Flinders, Skelcher, & Tonkiss, 2014).

The aim of this paper is to make a distinctive contribution to this literature by focusing on the role of the Boards, and their Non-Executive Directors in particular, looking at what they actually do and their accountability relationships; and by drawing upon a range of theoretical frameworks. Specifically, it considers the appropriateness of the model of corporate governance developed for the private sector. The paper assesses the impact on these governance and accountability arrangements of the fiscal austerity imposed by UK Governments during the study period of 2010–16. The implications of accounting change are highlighted, particularly how accruals accounting and consolidation practices interact with public expenditure control frameworks.

The study period was exceptional in at least three ways. First, the evidence presented in this paper shows that the period was distinctive, in terms of the fate of the study organisations and of the severe reductions in their expenditure and staffing. Public bodies constitute a relatively small part of the UK public sector, yet are widely caricatured as unaccountable ‘quangos’.² There have been frequent calls for them to be culled and several occasions when this has been claimed to have been done. The conventional interpretation of these episodes has been that there has been much recourse to ‘smoke and mirrors’, for example by reconfiguring government functions (e.g. reducing the organisational number count by mergers) and reclassifications into other governmental categories, with only limited reduction in resource usage (Flinders, 2008).

Second, this has been the first quango cull during which two features of New Public Management (NPM) – both deriving from private sector practice – have been prominent: the wholesale application of the private sector governance model to public bodies (Cornforth, 2005); and full implementation in the public sector of accruals accounting (Lapsley, 2009). These have been promoted on the basis that they will make government more efficient, perhaps smaller, which aligns with dominant ideological preferences and the deterioration in UK public finances. This narrative has strong support from international organisations such as the OECD (2005), but the notion that ‘this makes government more efficient’ is challenged in the academic literature (Hood & Dixon, 2016).

Third, there was a drastic change of UK policy: a period of strong public expenditure growth (2002–2010) was followed by the longest period of fiscal austerity for a century (Himaz & Hood, 2016, pp. 4–5). The international spread of NPM ideas predated the post-2008 austerity but that austerity provided a new stimulus to their popularity with governments.

The paper is structured in the following way. Section 2 establishes the theoretical framework, drawing on the concepts of vertical and horizontal accountability (from the political science literature) and of economisation (from the accounting literature). It then extends ideas of organisational task hierarchy to analyse the governance of public bodies. Section 3 sets out the empirical research methodology: fieldwork interviews in 14 UK public bodies; and documentary tracking of these and other bodies through the austerity period of 2010–16. Section 4 charts what has happened to the study organisations over this period. Results on the role of Boards, with a focus on the role of Non-Executive Directors, are reported in Section 5. The concluding Section 6 draws together the key empirical findings and confirms the productiveness of the theoretical framework and the empirical approach adopted.

2. Theoretical framework

2.1. Accountability and economisation

A recurrent tension regarding public bodies can be encapsulated in the distinction between the claims of vertical and horizontal accountability (Bovens, 2005). Although rarely officially expressed in these terms, vertical accountability is a hierarchical principal-agent relationship. Deriving their authority from Parliament, Ministers impose obligations upon, and secure reporting from, government departments and other public entities. Although it is frequently alleged that quangos are unaccountable, there is a constitutional chain through Ministers.

The claims of vertical accountability are challenged by those of horizontal accountability to the diverse stakeholders of particular

² The term ‘quango’ has no clear definition, but it is extensively used in UK political life and media comment in relation to public bodies outside ministerial departments. Usage is often pejorative, intended to convey unaccountability and illegitimacy on the argument that they are detached from control by elected representatives (Flinders & Skelcher, 2012). Official documents now tend to use the label ‘arm’s length bodies’.

public bodies. Schillemans (2011) theorised horizontal accountability as a remedy for the ‘accountability deficit of agencies’ created by their vertical accountability arrangements, implicitly conceding the diagnosis of inadequate accountability. Horizontal accountability claims not only challenge the dominance of vertical accountability but also compete among themselves: there can be irreconcilable differences among stakeholders. Those with responsibility for the governance of particular public bodies have not only to deal with conflicting expectations but also with possible misalignment of their statutory obligations with the policy preferences of their current Ministers. Cäker and Nyland (2017) examined how strict responsibility for performance (vertical accountability) might override horizontal accountability in the context of inter-organisational cooperation.

The tension between the claims of vertical and horizontal accountability can be explored using Miller and Power’s (2013) characterisation of accounting as an economisation process. They contend that economisation consists of the separate but interrelated roles of (a) territorialisation, (b) mediation, (c) adjudication, and (d) subjectivisation.³ This analytical framework is now used in accounting and governance research, as exemplified by Heald and Hodges (2015), Bracci, Humphrey, Moll, and Steccolini (2015) and Kurunmäki, Mennicken, and Miller (2016).

With regard to public bodies, our research shows the decisive roles to be territorialisation and subjectivisation. Importantly, territorialisation is not a concept of geographical space, but a metaphor: accounting maps what are constituted as economic entities for which there will be financial reporting (Heald & Hodges, 2015). Accounting therefore defines what are ‘calculable spaces’ which must account in financial terms; this may change how organisations in the public sector perceive themselves (e.g. as businesses) and how they are perceived by others (e.g. no longer as public services). Through government financial reporting, government is territorialised as a policy-relevant entity, as exemplified by the UK Whole of Government Account. Although established outside core government for diverse reasons, public bodies are nevertheless territorialised within it through these consolidation practices.

Subjectivisation refers to how entities constituted as calculable spaces are regulated and controlled from outside, yet retain elements of choice within the constraints of externally-set controls, such as accounting and statistical standards. This dual element – subjection to control, yet having some capacity to resist that control – is fundamental to the Miller and Power (2013) framework. Subjectivisation is particularly intense when financial information about government as an entity is used for fiscal surveillance on a peer-review basis: for instance, as for the International Monetary Fund’s Article 4 consultations, or for enforcement purposes such as the Excessive Deficits Procedure under the EU Stability and Growth Pact. The practical effect of subjectivisation is to increase the weight attached to vertical accountability relative to horizontal accountability. Subjectivisation involves the imposition of hierarchical will, but also encourages efforts by subordinate organisations to resist, by any means available.

These elements of the economisation framework provide tools with which to analyse tensions between vertical and horizontal accountability. These competing claims are inherent in public governance and condition the operation of governance reforms that seek to make public bodies more closely approximate private organisations. Misunderstanding or neglect of public/private differences result in divergences between substance and form.

2.2. Task hierarchy in the management of public bodies

The translation of private sector governance models to public bodies tends to be regarded as unproblematic in official pronouncements but problematic or misguided in the academic literature. However, such arrangements are almost universal for UK public bodies and common practice in many countries (Verhoest, Van Thiel, Bouckaert, & Laegreid, 2012). The exposition here avoids generic arguments and analyses how the differing context of public bodies mediates the operation of such governance systems.

Seeking to define the scope of management control in the private corporate sector, and drawing upon Anthony (1965), Otley (1995) distinguished a three-tiered task hierarchy: ‘Operations Management’; ‘Management Control’; and ‘Strategic Planning’.⁴ Each task supports the task above, with two-way information flow. An updated representation for the corporate private sector resulting from action taken following a number of major corporate failures, would require the addition of ‘Governance’ to the task hierarchy.

Fig. 1 develops this conceptualisation in relation to public bodies, depicting a pyramid with Operations Management again at the base. Extending the framework to apply to the governance of public bodies requires the division of Strategy into two components: called here ‘Market Strategy’ and ‘Organisational Strategy’; and the addition of ‘Policy’, which does not have a private sector counterpart, at the apex of the pyramid, thus creating a six-tiered hierarchy. The focus of Fig. 1 is upon the task itself: there is a related dimension of the identity of the actor(s) who undertake each task. For ease of exposition, these tiers are considered from bottom-up.

At the base of the pyramid is Operations Management, and above that is Management Control, conceptualised as the co-ordination of operational activities. There is much commonality in these tasks with the private sector. However, the detailed operations of public bodies and the exercise of Management Control are often on more public view, with media attention and politicians’ constituency interests making these more visible and contested. Another reason for greater visibility is illuminated by Rutherford’s (1983) distinction between budget-financed organisations (funded by taxes) and self-sustaining organisations (generating their own revenues by selling outputs). Most public bodies are either partly or mostly budget-financed and thus dependent upon government funding decisions. If a public body generates market revenues, it often benefits from statutory protection against competition and is dependent on regulatory policy.

A common feature of both private and public organisations is that existential risks might derive from operational activities. Oil-

³ A comprehensive exposition of these roles of accounting, together with discussion of how they interact, is provided by Miller and Power (2013).

⁴ Whereas Otley (1995) used the term ‘Strategic Planning’, this paper refers to Strategy which is decomposed into Market Strategy and Organisational Strategy.



Fig. 1. Task Hierarchy in the management of public bodies.

Source: Derived by authors from [Otley \(1995\)](#).

drilling platforms explode; aircraft booking systems implode; and vehicle engineers falsify emissions tests. Public infrastructure is delivered late and with huge cost overruns; flood prevention systems fail; and IT systems fail to deliver welfare benefits or agricultural subsidy payments. Rarely is causation unambiguous and this complicates the boundary between the responsibility of the Board and its Executives.

Strategy in the public sector has been widely recognised to be problematic ([Johnsen, 2015](#)). [Fig. 1](#) divides Strategy into Market Strategy which sits above Governance, and Organisational Strategy, which sits below it. The fieldwork reported in [Section 5](#) prompted this division. Some of what a private Board would regard as strategy can be outside the remit of a public Board, categorised as ‘Policy’ over which Ministers and sponsoring departments dominate.

The Market Strategy tier can be empty for some public bodies, but extensive for others. ‘Life and death’ decisions, such as selling or splitting the business, closing it down, or moving into new product or service lines, are not the sole responsibility of a public Board. Public bodies gain some strength from their legislated position within the architecture of government, but a determined Minister can enforce actions contrary to the statutory framework, especially if the government has committed itself to primary legislation.

Another cause of the constrained notion of strategy for a public sector organisation is that Market Strategy is set through, and constrained by, the statutory and public policy framework. This inhibits strategic choice: a public body cannot move out of its sector in the way that Whitbread plc abandoned brewing and focused on coffee chains and hotels. A public Board can be excluded from decisions about break-ups and mergers, core elements of Market Strategy.

What is called ‘strategy’ in public bodies is mostly inward-focused, dealing with the development of the organisation and concentrating on a five-year (or thereabouts) horizon (Organisational Strategy). The Market Strategy role falls exclusively within the remit of the Board only when the Minister or department have no capacity or interest in taking this role, and they are not being pressed to do so by the Cabinet Office or the Treasury. A private Board controls the existence, purpose, size, shape and internal structure of the organisation, with its performance continuously assessed by the capital market on financial criteria. As [Chambers \(1984\)](#) recognised, many so-called strategy documents in the public sector are bids for resources, not direction-setting plans.

Governance sits uncomfortably between Organisational Strategy and Market Strategy. It is partly about keeping the organisation ‘clean’, in a context where scandal is feared and expectations in terms of propriety and regularity are high. The guidance issued on governance ([Cabinet Office, 2016a](#)) is closely and explicitly aligned with that for private corporates. However, the Chief Executive’s Accounting Officer role of being answerable to Parliament through the Treasury ([Treasury, 2013](#)) complicates the Board’s relationship with the Executive team ([Heald & Steel, 2015](#)). Imposing Board structures on top of Accounting Officer relationships illustrates the risk of introducing new arrangements without considering how they will interact with the existing components of the ‘governance bundle’ ([Ward, Brown, & Rodriguez, 2009](#)).

In contrast to the private sector, Governance has to be conducted in the knowledge that Policy lies at the apex of [Fig. 1](#). Policy is an elastic term, which can either be used to justify the taking over of Market Strategy, or as an umbrella under which to express ministerial preferences on issues at all task tiers. For instance, Ministers may insist that: the services provided by the public body should be downsized because they are no longer a priority or must be sacrificed in the name of austerity; new functions must be taken on or existing functions hived off; support activities must be outsourced; Boards must have gender, ethnic and geographical balance; legacy locations must be retained; and/or services should go online. In contrast, there are instances where Ministers decide that values-based policy or rationing decisions are reconfigured as technical matters, partly to protect themselves from blame.

This discussion is situated within a principal-agent framework, in which vertical accountability relationships and obligations hold. For activities directly managed by ministerial departments, the doctrine of ministerial accountability, however threadbare in practice, can be cited in support when legitimacy is challenged. In public bodies, a combination of the nature of their activities and their organisational location outside direct ministerial control heightens the significance of horizontal accountability relationships. Such relationships can either be strengthened by stakeholder support, or undermined when that is withheld at times of austerity or quango cull.

Table 1
Characteristics of the 14 public bodies.

Code	Function	Geographical scope	Status at fieldwork date	Current Status	Chair still in post	CEO still in post	Functions gained or lost	Net expenditure increase or (decrease) 2010–16 (real terms)	Percentage increase or (decrease) in FTEs
A	Regulatory	England & Wales	Non-Ministerial department	Non-Ministerial department	No	No	No change	(36%)	(29%)
B	Regulatory	England & Wales	Executive NDPB	Executive NDPB	No	Yes	Gained	1%	57%
C	Regulatory	Great Britain	Executive NDPB	Executive NDPB	No	No	Lost	(49%)	(29%)
D	Regulatory	England & Wales	Executive NDPB	Executive NDPB	No	No	No change	Not meaningful	43%
E	Funding	England & Wales	Executive NDPB	Executive Agency	No	No	No change	(34%)	(8%)
F	Funding	England	Executive NDPB	Executive NDPB	No	No	No change	(6%)	(28%)
G	Funding	United Kingdom	Executive NDPB	Executive NDPB, pending abolition	No	No	No change	(17%)	(5%)
H	Funding	England	Executive NDPB	Executive NDPB, pending abolition	Yes	No	No change	(56%)	4%
I	Funding	England	Executive NDPB	Abolished in sector re-structuring	–	–	Not applicable	Not applicable	Not applicable
J	Service Delivery	England	Executive NDPB	Split in two; one Executive NDPB and one charity	No	No	No change	(34%)	0%
K	Service Delivery	Great Britain	Non-Ministerial department	Non-Ministerial department, pending dismantling	No	No	No change	(44%)	(20%)
L	Regulatory/Service Delivery	United Kingdom	Executive NDPB	Abolished	–	–	Not applicable	Not applicable	Not applicable
M	Service Delivery	United Kingdom	Public limited company	Public limited company	No	No	No change	32%	47%
N	Service Delivery	Scotland	Public corporation	Public corporation	No	No	No change	Not meaningful	4%

Note: This Table relates to the position in September 2016. Executive NDPBs include equivalents, such as NHS bodies. Changes to net expenditure are calculated on the basis of 2009–10 = 100, using the GDP deflator for conversion to real terms. In the case of bodies fully funded by fees and charges, net expenditure is not meaningful.

3. Research methodology

The research reported in this paper was conducted in two phases. The first was an interview study of 14 public bodies in the United Kingdom conducted from October 2011 to March 2012. This formed the basis for six Knowledge Exchange workshops with Chairs, Chief Executives, Non-Executive Directors and sponsoring department officials held between May 2012 and January 2013. The context of this first phase was distinctive. Following the formation in June 2010 of a Conservative-Liberal Democrat Coalition Government there ensued a prolonged period of fiscal austerity accompanied by one of the periodic quango cuts which have characterised UK experience.

The selection of the 14 study bodies, set out in Table 1, was made in the following way. Using official lists, public bodies were categorised as mainly regulatory, funding or service delivery. Five UK public bodies were identified in each category, paying attention to whether responsibilities covered the United Kingdom, Great Britain, England & Wales, England or Scotland, to variations in organisational status, and to sponsor department. The project recorded differences in organisational status but remained agnostic about their significance; [Dunsire, Hartley, and Parker \(1991\)](#) did not find evidence that status change within the public sector improved performance.

The interviews followed a pre-circulated agenda of questions covering: the role and composition of the Board; the roles of Non-Executive Directors and, where they existed, Executive Directors; and the relationship between the Chair and the Chief Executive. All interviews were recorded and professionally transcribed. A full explanation of the process is provided in [Heald and Steel \(2015\)](#). Of the targeted 45 interviews, three in each of 15 public bodies, 39 were achieved (87%). Three were lost because one body declined to participate and three because of refusals to be interviewed by one person in each of three public bodies.

The second phase tracked what has happened to these 14 public bodies, the cut-off date being the end of financial year 2015–16. The dimensions tracked from examination of annual reports, media coverage, and parliamentary inquiries are: whether abolished, reconfigured, merged or broken up; scale of budget and employment reductions; and turnover of Chairs and Chief Executives.

Attention was also paid to information available in the public domain about similar UK public bodies. What happened in the 2010–16 period was determined largely by the policies of the UK Coalition Government which left office in May 2015 after the Conservative Party won an overall majority in a General Election.

This paper uses examples of public bodies to illustrate findings that have emerged from the research, particularly where a concrete example improves clarity. The mention by name of a public body does not signify that this body is, or is not, one of the 14 study organisations. This procedure allows us to report our results in an informative manner, without breaching anonymity undertakings. The researchers would not have gained the same access and frankness had such undertakings not been made and processed through institutional ethics procedures.

4. The fate of the study organisations

Earlier UK quango cuts have been dismissed as damp squibs, with much attention being paid to reducing the politically sensitive number of organisations, without equivalent focus on reducing resources. [Table 1](#) demonstrates how different was the 2010–16 period. Six of the 14 study bodies have been, or are in process of being, abolished or dismantled (with most of their functions transferred to other bodies), and one has been divided into two parts. The most significant manifestations are: the abolition of public body L; the pending abolition of G; the reconfiguration of H; the sector reorganisation of I; and the conversion of E from NDPB to Executive Agency under closer ministerial control.

Even surviving public bodies have usually experienced drastically lower resources, as indicated by the percentage reduction of real-terms net expenditure. The data are presented in this form, rather than as actual numbers, in order to maintain anonymity. Such information is only relevant where the public body has survived or has clearly identifiable successors (as in the case of E and J). The largest reductions are for H at 56% and C at 49%. Exceptions to the generalised austerity are B (increase of 1%) and M (increase of 33% resulting from increased client take-up of its funding).

Care is required in interpreting these numbers because some surviving bodies have had some of their functions removed and others have acquired new functions. A column in [Table 1](#) indicates where there was a significant increase or reduction of functions, though putting values on the change is not possible from published sources. It is unclear to what extent the reduced net expenditure shown in [Table 1](#) was partially offset by charges or costs imposed on third parties (e.g. charitable organisations substituting for public provision) or by imposed or voluntary self-regulation when government has vacated the regulatory space.

Only two of the 25 Chairs and CEOs interviewed (one of each) remained in post at 31 March 2016. None of the 14 bodies disintegrated while still operational, as seemed possible at the time of the interviews, and the closures and function transfers were handled relatively smoothly. Operational failures were less extreme than had seemed possible. There was a very strong commitment among interviewees to ‘keep the show on the road’, notwithstanding the uncertain fate of their organisation and the scale of expenditure and staffing cuts. At the Knowledge Exchange workshops, Chairs and CEOs explained their decisions not to resign on the grounds that this would leave the public body, its employees, and the sector vulnerable to the appointment of ‘hatchet persons’ without such sense of obligation. Some therefore had accepted changes to funding and to the model of delivery that they neither supported nor believed would work.

In terms of the fiscal austerity imposed after 2010, public bodies constitute only one part of a larger whole. As [Table 1](#) demonstrates, several of the study organisations incurred deep cuts in net expenditure. Because of extensive departmental reconfigurations it is not possible to calculate percentage reductions for sponsor departments, but these have undoubtedly been large. This had damaging implications for sponsorship capabilities, particularly for the departments responsible for bodies F and H. This was not an occasion when the core of government protected itself and transferred all the pain elsewhere. Paradoxically, this reduced the capacity to exercise the responsibilities of vertical accountability at a time when, as the next Section demonstrates, its dominance over horizontal accountability had been asserted.

Although the 14 study organisations are not statistically representative, the authors' judgement is that the dramatic content of [Table 1](#) resonates with UK central government public bodies generally. The information that is available refers to changes in their contributions to the public expenditure aggregates ([Cabinet Office, 2016b](#)), not to changes in net expenditure as recorded in [Table 1](#). The annual [Cabinet Office \(2016c\)](#) volume (*Public Bodies*) only provides data on central government public bodies, excluding the NHS (where the numbers of organisations are very large and there has been fragmentation). The [Cabinet Office Efficiency and Reform Group \(2015\)](#) stated that the government's programme has ‘radically reformed the landscape for public bodies’:

New figures published today [17 December 2015] reveal that the government has saved the taxpayer £3 billion since 2010 and reduced the number of public bodies by over a third. The Public Bodies Reform Programme ... has reviewed the effectiveness and value for money of public bodies, reducing them by over 290 and abolishing over 190 ...

5. The role of the boards of public bodies

Public bodies in the United Kingdom, like their private sector counterparts, have a unitary Board structure (unlike some other European countries where there are separate supervisory and management Boards). Non-Executive Directors constitute a majority although the balance between Non-Executive and Executive Directors varies (and in some cases there are no Executives). These governance practices have been imported wholesale from the private sector.

Numerous reports and codes of practice on governance have been published for the private sector, from the [Cadbury Committee \(1992\)](#) to [Walker \(2009\)](#); these have had a profound influence on practice in the public sector ([Hodges, Wright, & Keasey, 1996](#)).

Cadbury defined the role of Non-Executive Directors on unified Boards as wearing two hats: monitoring and controlling Executive Directors; and ‘as equal Board members’ (para. 4.10) contributing to the leadership and strategic direction of the organisation. A review of guidance and research evidence produced for NHS Boards (Ramsay & Fulop, 2010) resulted in a very similar role definition.

This Section reports the findings on what public Boards actually do, viewed through the prism of the theoretical framework in Section 2. It focuses on the role of Boards and their Non-Executive Directors in both Market and Organisational Strategy, a distinction that the authors developed subsequent to the fieldwork. Extracts from fieldwork interviews are coded A-N as in Table 1, preceded by [CH] Chair, [CEO] Chief Executive or [ACC] Audit Committee Chair.

5.1. Market strategy and organisational strategy

Interviewees confirmed that they saw strategy as a key Board function, characterising their role as:

strategy ... holding the Executives to account ... and signing off and going through the business plan. [CH(B)]

Guiding the principles, balances, and contentious judgements. [CEO(L)]

Whereas a private sector Board would have full responsibility for both Market and Organisational Strategy, the fieldwork confirmed that in the public sector this aspect of the Board’s role is more constrained. First, much of what a private Board would regard as strategy and thus its responsibility can be outside the remit of a public Board:

What the Board doesn’t do ... what no public body can do is to decide that it wants to branch off into some completely different aspect of public business or any other kind of business and do so without agreeing that with its sponsoring department. [CEO(B)]

The Policy tier of Fig. 1 is expandable (at the expense of Market Strategy) and contractable, according to the wishes of Ministers who turn over rapidly, particularly those at junior level who are usually the key interface between department and public body. What is politically salient can suddenly change, as illustrated by the Forestry Commission (abandonment of proposed forest sell-offs to meet Treasury asset disposal targets) and the Environment Agency (failure of flood defences after austerity-driven cuts to capital programmes). There are two dimensions to the resulting elasticity: the substantive content of the policy sphere can expand or contract; and the allocation of that content can change:

And government policy is effectively synonymous with strategy. I think there’s a real confusion here ... I think for Board members it’s hugely frustrating. I think it’s sometimes they feel that they really aren’t ... directing this organisation. [CEO(M)]

It was the UK Coalition Government which in 2014 merged the Office of Fair Trading (investigating role) with the Competition Commission (adjudicating role) to form the Competition and Markets Authority.

Most of the Non-Executive Directors on the study Boards had been recruited either for their sectoral expertise and experience, or for their business skills, reflecting the NPM drive to make public bodies more efficient and ‘business-like’ in their operations. This enables government to access expertise not readily available in the civil service and can assist in securing stakeholder support. A continuing governance strength of public bodies is the sectoral knowledge and technical expertise available at Board level. This strengthens the ability of Non-Executive Directors to contribute effectively to development of both Market and Organisational Strategy. The need for this has become more important because of the run-down of policy and sponsoring capacity within spending departments observed by those interviewed during the fieldwork and noted by Rutter, Malley, Noonan, and Knighton (2012).

However, some Non-Executive Directors may have accepted appointment because they wished to influence the direction and activities of the public body. Policy and, in some circumstances, Market Strategy, can be dangerous areas in which to become involved. If a Board were to contest high-level policy or policies with cost implications against the wishes of Ministers, dismissal of the Board or abolition of the public body is likely:

the people [the Board] wanted to ... they were interested in discussing ... policy which really and truly is the remit of Ministers. [CEO(E)]

... they were concentrating too much on policy and really didn’t have an awareness of the sort of delicate tightrope you have to walk if you are an NDPB. [CH(E)]

Because the scope of Policy can be stretched or contracted by Ministers and officials, such involvement may be welcomed by Ministers when blame-avoidance (Hood, 2007) is a dominant consideration (e.g. rationing health care) or resisted when this conflicts with ideological objectives or budgetary cutbacks (e.g. disputed removal of benefit entitlements):

... it is in the Department’s interests to separate themselves from the day-to-day of what we do and the decisions we make ... the whole purpose is to have a process which makes these judgements, they don’t come to Ministers as a matter of politics. [AC(B)]

Second, as a consequence of the Treasury’s Clear Line of Sight initiative,⁵ departmental accounts since 2011–12 have a columnar format showing ‘Core department and executive agencies’ and ‘Departmental grouping’. The issue of the departmental boundary

⁵ The Treasury’s Clear Line of Sight project ‘... was established to bring together (align) the way financial information [is] recorded and reported in the Supply Estimates, departmental budgets and resource accounts so that in future all measured expenditure in the same way. The aim was to make information in different documents directly comparable’ (Scrutiny Unit, 2015, p. 2).

under Resource Accounting has been controversial since the implementation of accruals accounting in 2001–02. The Treasury overrode the control principle in UK GAAP (and IFRS from 2009–10), imposing its own definition of the departmental boundary (Heald & Georgiou, 2000).

As from 2011–12, the Treasury extended the consolidation boundary to include Executive NDPBs, without fully conforming to IFRS. This change had long been anticipated but brought such public bodies within departmental budgets, just at the time of drastic expenditure reductions under the austerity programme. Previously, only the grant-in-aid⁶ paid to the public body would have been included in departmental spending. Due to the constitutional sensitivity of the Supply procedure (Jack, 2011), the necessary House of Commons consent was obtained on 5 July 2010 by means of a motion approving these alignment reforms. This accounting and budgeting change re-territorialises public bodies, bringing their activities inside the Total Managed Expenditure control aggregate, which was the instrument of the 2010–15 Coalition Government's austerity programme. This strengthening of vertical accountability facilitated a top-down approach to the process of making expenditure reductions.

A further shift in the balance of power towards Ministers in the study period was the enactment of the *Public Bodies Act, 2011*, which reinforced the weight of vertical accountability compared to horizontal accountability by enabling significant changes in some public bodies to be made by secondary rather than primary legislation. Accounting and legal changes were therefore mutually reinforcing.

Third, whereas in the private sector shareholder wealth maximisation is often used as 'a single integrated measure of overall performance' (Otley, 1995, pp. 56–57), public bodies experience difficulty in knowing what constitutes 'success' and whose perceptions of success and failure should be validated. Some operate in a toxic environment, where success can be criticised and failure celebrated by the media and opposition politicians. There is frequently a lack of clarity about who is responsible for any failures (for example an IT failure could be the result of mismanagement internally, inadequate investment by government or the body itself, and/or exaggerated expectations on the part of Ministers). In such circumstances, public bodies are particularly vulnerable to a change of government or merely a change of Minister within an administration.

Fourth, as well as having resource dependence on government budgets which brings them closer to the political process and thus government policy, public bodies are vulnerable to, and dependent on, a much wider range of stakeholders than are private sector corporates. For the latter, whatever the corporate social responsibility rhetoric, it is shareholders who hold primacy, even though there are occasions when other stakeholders can have an impact, usually imposing constraints rather than framing objectives.

The legitimacy of public bodies depends critically upon the attitudes towards them of diverse stakeholder groups that do not have an ownership relationship: a clear example of the significance of horizontal accountability. The willingness of key groups to support a public body under threat of culling influenced the fate of public bodies during the period of the research. Although some sections of the Conservative Party and its media allies had persistently mocked and attacked the Health and Safety Executive, its functions, though not its budget, have survived relatively intact, due in part to stakeholder support and to the extent to which its executive functions are prescribed by EU legislation. Similarly, the Environment Agency was protected to some extent by its role in fulfilling EU and international obligations. In contrast, stakeholders turned on the Audit Commission. Private sector audit firms advanced their self-interest in terms of future contracts. English local authorities were hostile because of antagonism towards the Commission's style and its Comprehensive Area Assessment, without having regard to how the sector surveillance role of the Commission might have protected them in the context of deep cuts in central government grants (Timmins & Gash, 2014).

Whereas there were factors at play outside the ability of particular Boards to influence, the management of stakeholder relationships is clearly revealed as a crucial Board activity:

That is much easier done by people who have hinterlands in the various organisations, who actually have some responsibility, than it is by people with the right skillsets but who may be totally unknown in the various worlds and therefore would carry little influence. [CEO(C)]

What makes them effective is their ability to see the bigger picture and to see the context. [CH(C)]

Fifth, whereas private Boards and their nomination committees are responsible for appointments and succession planning, public Boards are not self-renewing: new appointments and re-appointments of Chairs and Non-Executive Directors are matters for ministerial decision. This is a significant factor influencing the balance between vertical and horizontal accountability. At the time of the fieldwork, all the Chairs interviewed said that they had opportunities to discuss and influence the make-up of their Boards when vacancies arose and some indicated that, within the constraints of legislation and Ministers' wish to be presented with a choice of names, they were in the driving seat:

I am in it heavily ... and they are giving me a big say in what is needed. [CH(N)]

No, we don't have a Board of people who are imposed. [CEO(J)]

However, at the Knowledge Exchange workshops, it became clear that, notwithstanding the principles of the *Nolan Report (1995)*, Ministers were becoming more proactive in the appointments process. This development, bolstered by the recommendations of a Cabinet Office Review (Grimstone, 2016), led the *Public Administration and Constitutional Affairs Committee (2016)* to express concern about the impact of this shift upon public trust in the appointments system.

⁶ Grant-in-aid is 'A grant made by a Government department from voted money to a particular body, usually an Arm's Length Body (ALB). Grant-in-aid can be used in any way towards an ALB's objectives i.e. it is not linked to specific activities' (Scrutiny Unit, 2017, p. 29).

Lastly, but importantly in terms of its impact upon the primacy of vertical accountability, the role of public Boards is conditioned by the designation of the Chief Executive as Accounting Officer:

There are areas where the Council or Board of any public body cannot direct the Chief Executive to take a course of action if [the CEO] thinks it's inappropriate with the requirements ... as Accounting Officer, absolutely black and white. [ACC(G)]

Very, very rarely exercised but yes [being the Accounting Officer] can be hugely important. [CEO(K)]

The Treasury attaches great significance to the Chief Executive's personal financial responsibility as Accounting Officer, insisting on a direct reporting line independent of the Board (Treasury, 2013). This was considered by interviewees to be more important than whether the Chief Executive was a member of the Board: several were not but all were in attendance with speaking rights.

5.2. Other roles

At the bottom of the task hierarchy in Fig. 1, reflecting a consistent line in all governance guidance for private and public sectors alike, is that Boards 'do not do operations':

primarily strategy, and assurance, as opposed to management. [CEO(I)]

There is a common desire to separate governance and assurance from management, yet this is problematic.

First, strong criticism was made of the inferior quality and timeliness of management information in public Boards, particularly by those with experience of the private sector:

I think most government organisations that I have been involved in struggle to produce the information that I really want ... [but there's] a much more challenging issue as to whether the information you get is actually reliable and addressing the key risks to the organisation. [AC(K)]

Without confidence in the relevance, quality and timeliness of management information, there is a temptation for the Board to dig down into operations.

Second, the issue is more nuanced than acknowledged by this doctrine of separation of management from governance, as is amply illustrated by private sector experience such as BP's 2010 Gulf of Mexico oil spill and Volkswagen's 2015 diesel emissions violations. A disturbing problem for any Board member in the private or public sectors, particularly a Non-Executive Director, is that organisation-destroying and reputation-shredding failures might derive from operations. Questions arise as to what Boards did know; whether some members (perhaps Executive Directors) did know but others did not; or whether there were vertical information channel blockages, so that the Board did not know about operational vulnerabilities. What Non-Executive Directors know or can rely upon is of fundamental importance:

... a major failing of governance ... it seems the Board was unaware and the Chief Executive was not informing the Board of what was going on. [CH(M)]

In the case of rescue situations or organisational failure, the Board and *ad hoc* committees may become centrally involved in the performance management of operations:

Essentially the Non-Execs were behaving as Executives, running and chairing these committees, and had the management in a bear-hug. [CH(M)]

The problem is set out clearly in a National Audit Office report on the Charity Commission for England and Wales:

The board's continuing involvement in executive functions from late 2013 to mid-2014 can be justified by the need to tackle serious issues faced by the Commission and cover the transition to the new chief executive. However, there is a risk that the board's continuing involvement in executive matters for an extended period could limit its independence and ability to hold the executive to account effectively (NAO, 2015, p. 9, para. 22).

There are also close parallels with private Boards regarding their role in performance monitoring of the Executive team. This was usually expressed in terms of the requirement for the Board, and especially the Non-Executives, to challenge the Executives:

You direct Executives, you support them, you challenge them, and in extreme cases you change them. [CH(N)]

The Board forces accountability just by existing. [AC(H)]

The tension between the strategy and oversight roles of a unitary Board is pronounced for Non-Executives. They formulate strategy inside the tent, but then are outside for holding the Executives to account.

6. Conclusion

This paper has explored the role of the Boards of public bodies as a contribution to understanding their governance and accountability. It has done this by drawing upon literature relating to the concepts of vertical and horizontal accountability and of economisation, and by extending Otley's (1995) task hierarchy for application to public bodies. These have been used to assess the appropriateness of adopting private sector corporate governance and the impact of fiscal austerity during the study period of

2010–16. This concluding Section draws together our findings, and comments on the utility of the theoretical framework.

6.1. Private-style governance of public bodies

United Kingdom public bodies now have Boards with a Non-Executive Director majority, making their surface appearance similar to that of private Boards. However, this research has shown that in various ways the context within which they operate is very different because these bodies are part of the architecture of government. Appointments to Boards are increasingly based on business skills, which may be generic or specific to the sector in which the public body is located. Those Non-Executive Directors with extensive private sector experience often find ‘public sector constraints’ troublesome and frustrating.

Section 2’s theorisation and the empirical findings in Section 5 focus attention on why, beneath formal similarities, the governance of public bodies differs from that of private corporates, with implications for the Board, its Non-Executive Directors, and the Executive team. The core of these differences is that Policy and Market Strategy only belong to a public Board through ministerial forbearance or neglect. In addition, the fieldwork revealed that the interplay between the forces of vertical and horizontal accountability are more complex for the Boards of public bodies. There was a strengthening of vertical accountability during the study period, especially in relation to those bodies where the countervailing processes of horizontal accountability were weakened. In the application of private-style corporate governance to public bodies, there is an unmistakable divergence of substance from form.

The Coalition Government also embraced the idea of Non-Executive Directors in government departments themselves, a development that has led to more participant commentary reaching the public domain (Cheshire, 2015; Thornton, 2015). This has not only reinforced the claims of successful transfer into the public sector of private sector governance mechanisms, but has increased the likelihood that departments will treat public bodies within their departmental grouping as subordinate entities, in the manner of a corporate parent and its wholly-owned subsidiaries. This has been described by one NDPB Chair as moving from ‘an arm’s length relationship ... to a headlock’ (Dommatt et al., 2014). There is a danger of losing sight of the original reasons for locating activities outside the department, including confusing the oversight role of Parliament and the governance role of Non-Executive Directors. Bringing public bodies within departmental resource accounts, especially at a time of unprecedented expenditure reductions, prompted re-territorialisation. This was accompanied by intensified subjectivisation, with the capacity of public bodies to resist eroded by the political context of austerity.

There was almost universal acceptance among interviewees of the private governance model being applicable to public bodies, though there might be selection bias: those who resist this model might avoid these roles. Behind this doctrine, which is enshrined in official guidance, this research has demonstrated that practical realities in the public sector are much more complex and heavily contingent, depending for instance on which Ministers are allocated which portfolios. The lack of role clarity may be useful for blame-avoidance, as when Ministers publicly criticise the performance of public bodies for which they themselves are accountable to Parliament, but it also a major factor in the breakdown in public body governance that has been identified by many commentators and researchers (e.g. Dommatt et al., 2014; Gash et al., 2010).

6.2. The impact of austerity

What has occurred over the study period is part of a landmark reconfiguration of UK government. There is scope for argument whether the key determinant has been an ideological agenda for shrinking the state or a necessary fiscal consolidation after the 2008 financial crisis exposed weaknesses in UK public finances. The popular usage of the term ‘austerity’ subsumes both.

The 2010–15 UK Coalition Government abolished, refocused, merged, broke up, reconstituted and downsized a significant number of public bodies (Durose, Justice, & Skelcher, 2015; Skelcher, Flinders, Tonkiss, & Dommatt, 2013). This process continued under the 2015–17 Conservative Government, and exit from the European Union will remove the UK’s obligations that gave some protection in the study period to public bodies with regulatory remits.

The context of austerity expanded what was possible in terms of shrinking and reconfiguring UK government. From the 2010 Spending Review (Treasury, 2010) which announced the scale of the planned 2010–15 spending cuts, the question was whether some public sector organisations might suffer total collapse. There is a UK Government narrative that the 2010–16 period has delivered the elimination of waste and extravagance in the public bodies sector, without damage to the execution of public functions. This view has been challenged by the National Audit Office (2014) and by the House of Commons Public Administration Select Committee. The Public Administration Select Committee (2015, p. 17) called for a ‘more professional and transparent approach to the management of the state beyond departmental borders’. Yet this is thrown into question by the depletion of parent departments’ sponsorship capacity (National Audit Office, 2016) and by the power shift in the Public Bodies Act, 2011 which strengthened vertical accountability by enabling Ministers to restructure and close some public bodies without primary legislation. There is negligible acknowledgement in the official guidance of the way in which Policy and Market Strategy impinge, in an unstable way, on a public Board’s role in strategy, as this would be understood in a private sector corporate.

It is premature to assess fully the effects of these austerity-driven changes. One view is that abolition and downsizing indicated the superfluity and waste that had previously existed in a bloated quango state. A contrasting view is that claimed improvements might be illusory. For example, ‘efficiency savings’ in the expenditure of the Food Standards Agency would look different if there were a mass outbreak of *E-coli* poisoning. Regulatory activity is rarely missed until there is some spectacular failure or the issue captures the public imagination (Gregory, 1998).

6.3. Utility of the theoretical framework

Each of the key strands of the theoretical framework set out in Section 2 has contributed to analysis of what the Boards of public bodies actually do and of the context in which they operate, both reinforcing and adding to the approaches used by others in recent research on governance and accountability.

First, the modified and expanded version of Otley's (1995) task hierarchy has proved valuable in understanding the distinctions between the roles of Ministers and Boards and the relationship between Boards and their Executives. It also helps in exploring the complexities involved, for example in the area of Market Strategy and in the allocation of responsibility – and associated credit or blame – for operational failures.

Second, public bodies have been shown to be an arena where the claims of vertical and horizontal accountability clash. The urgency of fiscal consolidation accelerated an already discernible centralisation of political authority, at the expense of more autonomous and looser arrangements stressing the support of stakeholders, upon whose collaboration the effective performance of public bodies depends. However, horizontal accountability claims are themselves challengeable, especially when there are conflicts of interests, such as when beneficiary or provider groups seek to gain control of eligibility criteria and hence budgets.

Accounting played a facilitating role, rather than a causal one in these developments. The main significance of accounting's economisation role – the third strand in the framework – derives from defining broad entities (territorialising the departmental grouping in which public bodies sit, rather than just the core department and its Executive Agencies). The activities of such public bodies were therefore inside the Total Managed Expenditure control aggregate, which was cut by the 2010–15 Coalition Government. The top-down nature of the process enabled the expenditure reductions to be made. The modest actual improvement of UK public finances over the 2010–16 period derived from the weak performance of the economy and of tax revenues, not from a failure to deliver expenditure reductions (Institute for Fiscal Studies, 2017).

Subjectivisation occurred via the increased use of central authority across the whole of the UK public sector, yet the political circumstances of austerity resulted in limited resistance by the Boards of public bodies which generally engaged in damage limitation. Accounting delivered the aggregate numbers through which this hierarchical pressure is exerted. Herein lies a paradox: greater fiscal transparency at the aggregate level (desirable for fiscal accountability and sustainability) facilitates heightened central control (regarded as undesirable by those who favour decentralisation on accountability and/or efficiency grounds).

The research findings have also underlined the significance of many of the characteristics of individual public bodies, including their purpose and their political sensitivity. A surprising finding was that structuring the study bodies into regulatory, funding and service delivery organisations turned out to be less significant than had been expected. The expectation had been that a preference for private ownership within the Coalition Government might complicate relationships with service providers; that funding bodies might be under threat from austerity; and that regulation might be preferred to provision and funding when alternative means of achieving objectives were sought. Nevertheless, ministerial antipathy to regulation created difficulties for regulatory public bodies (particularly A) and for funding bodies expecting that more regulation would accompany reduced funding (particularly H).

Reduced autonomy within the state resulting from NPM and public sector accounting reforms clashes with claims of empowerment for public managers. The Miller and Power (2013) conceptualisation of accounting's roles in territorialisation and subjectivisation helps understanding of how government architecture works in practice and how the state is reconfigured. Formal classifications of public bodies are less important than power relationships in the context of intensified centralisation, which alters the balance between vertical and horizontal accountability.

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