

REDEFINING THE BOUNDARIES OF PUBLIC SECTOR ACCOUNTING RESEARCH?

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ABSTRACT

In this paper we assess the different contributions to public sector accounting research in recent decades. We draw on Burrell and Morgan's (1985) framework to study two distinct aspects of public sector accounting: first, the Private Finance Initiative/Public-Private Partnerships (PFI/PPP); and second, budgets in public sector institutions. While PFI/PPP is a recent phenomenon, budgeting in the public sector is often regarded as the fundamental element of financial management in public services. This paper explores whether there are differences in motivation in research in these different aspects of public sector accounting.

INTRODUCTION

There is a burgeoning literature in public sector accounting. This has intensified since the reforming governments of the 1980s and 1990s which have sought to implement the New Public Management (Hood, 1991, 1995) agenda. This paper examines recent research in the public sector and seeks to answer the question of whether the different perspectives deployed are redefining the boundaries of what constitutes public sector accounting research.

There have been many accounting developments in the public sector in the last two decades. There is not space within this paper to consider all such developments. We have focused on two distinct areas: the Private Finance Initiative (latterly Public Private Partnerships) (PFI/PPP) and budgets. We focus on these two areas for different reasons. We study the Private Finance Initiative/Public Private Partnerships as a new phenomenon in the last decade or so which is becoming of increasing importance (Broadbent and Laughlin, 1999). The PFI/PPP development poses fundamental challenges for the public sector and here we seek to examine the nature, motivation and implications of the studies undertaken. This area of research has the potential to redefine the boundaries of public sector accounting research as revealed in the theoretical and conceptual perspectives deployed in such studies. The second area of research, budgets, has always assumed the dominant position in public sector accounting (Henley, Likierman, Perrsin, Evans, Lapsley and Whiteoak, 1992). For this reason, we have examined papers on budgeting particularly with a view to determining the

manner, scope and change in studies in this area. In this way, we compare public sector accounting studies in an area of social, economic and accounting innovation (PFI/PPP) and also within the bedrock of public sector accounting (the budget).

CONTEXT OF STUDY

The public sector of many economies has been subject to dramatic change. These changes include the movement of public sector organisations and parts of public sector organisations into the private sector, the market testing of public services against private sector providers, collaborative arrangements between public sector providers, new forms of structures and private sector proxies (quasi-markets), and new forms of management. In this, accounting has had a significant role. Accounting is a major mechanism by which many of these changes have been enacted. The prominence of accounting has aroused the interest of a wide range of researchers who have brought interdisciplinary perspectives to bear in analysing these public sector changes. Lapsley (1988) mapped out the public sector as a neglected area which offered significant opportunities for research. Also, Broadbent and Guthrie (1992) and Lapsley (1998) observed the contested arena that is the public sector and the manner in which alternative theoretical perspectives might be deployed to undertake such research. The paper explores this phenomenon by examining the differing perspectives deployed in research in these two areas of public sector accounting.

APPROACH

These changes within public sector accounting are analysed using a four paradigm framework proposed by Burrell and Morgan (1985). This approach is based on the assumption that social theory can be analysed in terms of two dimensions: the subjective-objective dimension and the regulation-radical change dimension. When taken together, these two aspects define four distinct sociological paradigms which can be used to analyse a number of social theories. These paradigms are: the Functionalist paradigm; the Interpretive paradigm; the Radical Humanist paradigm and the Radical Structuralist paradigm (see Figure 1).

Figure 1: Four Paradigm Framework

Radical Change			
Subjective	Radical Humanist	Radical Structuralist	Objective
	Interpretive	Functionalist	
Regulation			

Source: Burrell and Morgan (1985).

Functionalist theories are broad-ranging, including systems theory, contingency theory, scientific management (and its present day equivalent), all of which have characteristics such as rationality of key actors and instrumentality of actions (Burrell and Morgan, p. 121). Much traditional accounting research can be seen as sitting within this paradigm because it presupposes rationality and that cause and effect are known and can be demonstrated. The Interpretive theories embrace a variety of approaches (phenomenology, ethnomethodology, hermeneutics), but theorists of all of the interpretive schools of thought share a common perspective – their primary concern is to understand the subjective experience of individuals (Burrell and Morgan, pp. 234–253). This particular approach has been increasingly deployed within accounting research to explore the subject of meaning and the manner in which accounting is involved in the social construction of organisations. The Radical Humanist paradigm is underwritten by a common concern for the freedom of the human spirit (Burrell and Morgan, p. 306). This is a very distinctive approach to research which challenges conventional thinking on the meaning and understanding of how organisations and indeed parts of organisations function within the society in which they sit. This approach is mostly associated with the Critical school of accounting. Radical Structuralism is a complex set of theories reflecting critical thinking from a Marxist perspective and conflict theory. This paradigm draws on political thought and influence to interpret events and has been deployed, for example, using a labour process perspective of organisational change. We seek to locate research output within these quadrants, to examine the extent to which research within the public sector has assumed quite different perspectives in the scrutiny of public sector reform.

In this paper we examine 53 articles in PFI/PPP and budgeting. We have selected articles over a period from 1986 to 2005 covering a range of accounting journals which publish public sector articles: *Abacus*; *Accounting, Auditing and Accountability Journal*; *Accounting Forum*; *Accounting, Organizations and Society*; *The British Accounting Review*; *Critical Perspectives on Accounting*; *European Accounting Review*; *Financial Accountability and Management*; *The Irish Accounting Review*; *Management Accounting Research*; and *Public Money and Management*. The journals included were selected on the basis of their relevance and influence in the field of public sector accounting research. Not all of these journals would be considered exclusively public sector in orientation, but in our view they contain articles of particular interest to the foci of this study.

THE PRIVATE FINANCE INITIATIVE/PUBLIC PRIVATE PARTNERSHIPS

The Private Finance Initiative was launched in the UK in 1992 and involves the private sector supplying services in the form of property and facilities to the public sector in exchange for a stream of payments to the financier, usually over a period of between 25 and 60 years. Among the reasons put forward for the introduction of PFI were the increasing need for infrastructure and the need to control public expenditure, together with commitment to increase private sector involvement in the public sector (Broadbent and Laughlin, 1999). After the introduction of PFI by

the Conservative Government in 1992, it was redefined as Public Private Partnerships (PPP) by the incoming Labour Government of 1997. While PPP accentuated both public and private sectors working together, it nevertheless drew upon PFI as the underlying mechanism by which new public sector capital projects were financed. For this reason we use PFI/PPP interchangeably in this paper.

The PFI has attracted a substantial amount of attention since its introduction. Proponents of PFI/PPP note that it has allowed projects to go ahead that could not have been undertaken without the private sector; therefore PFI has in some cases been the only way to improve certain public services. PFI/PPP proponents also argue that PFI gives greater value for money (VFM) due to the transfer of risks to the private sector. Critics of PFI/PPP have observed many problematic issues. Some critics see PFI/PPP as simply another form of privatisation. Rhodes (1994), for example, made reference to the PFI process as ‘hollowing out of the State’; and Broadbent and Laughlin (1999) have questioned whether PFI is simply privatisation by a different route – they believe that this question remains unresolved.

The mechanism of PFI/PPP raises a wide range of issues around the process of undertaking this form of investment, around scrutiny and audit, around transfer of skills and knowledge and issues of detailed project management. In this paper we focus on the key dimensions of PFI/PPP addressed in the literature: VFM, affordability and accounting disclosure issues. The research we examine is set out in Table 1.

TABLE 1: FOUR PARADIGM FRAMEWORK FOR THE PRIVATE FINANCE INITIATIVE/PUBLIC PRIVATE PARTNERSHIPS RESEARCH

Radical Change			
Subjective	Radical Humanist Broadbent and Laughlin (1999) Broadbent and Laughlin (2003) Broadbent, Gill and Laughlin (2003)	Radical Structuralist Shaoul (2005)	Objective
	Interpretive Froud (2003) Rutherford (2003)	Functionalist Froud and Shaoul (2001) Gaffney and Pollock (1999) Heald (2003) Heald and Geaughan (1997) Hodges and Mellet (1999) Hodges and Mellet (2002) Hodges and Mellet (2004) Kirk and Wall (2001) Mayston (1999) McKendrick and McCabe (1997) Shaoul (2002) Shaoul (2003)	
Regulation			

Source: Compiled from PFI/PPP articles surveyed for this paper.

Table 1 shows that a variety of methodologies have been employed in examining PFI/PPP. However, only one (Shaoul, 2005) takes what might be regarded as a Radical Structuralist perspective, by not only stressing technical deficiencies of PFI/PPP, but particularly by examining the redistributive impact of such financing mechanisms on different social groups. There are also PFI/PPP commentators who deploy Radical Humanist perspectives – notably Broadbent and Laughlin (1999, 2003) and Broadbent, Gill and Laughlin (2003) – who use a Habermasian framework to critique PFI/PPP. We also have examples of more Interpretive perspectives in the shape of work by Froud (2003) and Rutherford (2003). However, the predominant approach to academic research and review of PFI/PPP sits firmly within the Functionalist framework in which authors seek to scrutinise elements of models such as VFM, risk and the specifics of case study settings and how these are accounted for. Many of these studies (Mayston, 1999; Hodges and Mellet, 1999, 2002, 2004; Shaoul, 2002, 2003; Heald, 2003) are critical reviews of PFI/PPP. But these papers are criticisms of this mechanism on its own terms, that is, how it is implemented in practice and what the parameters and difficulties are of its implementation. Within the accounting literature which we have scrutinised, efforts to challenge the fundamentals of PFI/PPP from a Radical Structuralist perspective are limited.

Appraisal

The appraisal process for PFI is a central issue. This process aims to identify the project which will potentially provide the greatest financial benefit. It requires the assessment of two specific financial criteria which must be achieved for a PFI project to be undertaken: value for money; and affordability (Froud and Shaoul, 2001; Shaoul, 2002). However, this process is far from straightforward and a number of issues have been identified concerning the financial criteria of VFM and affordability, which we now consider.

Value for money

Two strands have been identified within the evaluation of VFM by Broadbent et al. (2003). These relate to the evaluation of financial and non-financial aspects within the PFI project. The importance given to these aspects is seen to be dependent on the stage of the PFI project; in terms of pre-contract evaluation, financial evaluation is the dominant factor. However, in terms of post-project evaluation, both financial and non-financial factors should hold equal importance. Yet, research on this shows that it is financial evaluation which tends to dominate and, in particular, risk allocation, which is described as the main requirement for a project to be considered as displaying VFM. It is noted by Froud (2003) that although initially PFI was not developed for the aim of managing risk, this has now become a key feature of PFI schemes. This transfer of risk requires the allocation of probabilities to various elements of risk and outcomes which are then valued in an attempt to place a financial measurement on the transfer of risk and therefore include it in the options appraisal. However, this is problematic as the process is limited by the

ability of management to assign these probabilities and values to the outcomes (Froud and Shaoul, 2001).

Further limitations are highlighted elsewhere. For example, Shaoul (2002) believes that regardless of how much risk is transferred to the private sector, there are certain risks, such as technical obsolescence, changing regulation and demand, that will always remain with the public sector. In addition to this, there is also an issue that new risks created by PFI are not considered. This failure to identify new risks created by private finance is illustrated in a study of the National Air Traffic Services PPP. In this study, Shaoul (2003) observes that no risk assessment appears to have been carried out in relation to the Government's loss of control of a key infrastructure facility.

The subject of risk is studied in detail by Froud (2003), who looks at the management of risk and uncertainty within PFI projects. She observes that the use of contractualised risk transfer as a way to control the future is flawed. In particular, by limiting the scope of the State, the ability to respond to, and shape, the future is restricted. It is, however, recognised that risk transfer is important within PFI contracts, both in attaining value for money and also as a central factor in accounting treatment. Froud also recognises the important role of the State which goes further than just the delegation of power to private contractors in the identification of ways of managing uncertainty.

In their discussion of accounting for PFI, Heald and Geaughan (1997) advocate that disclosure practices should give primacy to transparency over financial impacts of PFI, rather than accept commercial confidentiality as a reason for non-disclosure. Furthermore, Heald (2003) highlights the complex nature of both accounting treatment and VFM issues surrounding PFI. Heald (2003) suggests that the analysis of VFM should look at total risks which may be sensitive to methods of service delivery rather than focusing on the sharing of risk (risk transfer) in PFI guidance. The study also highlights the potential benefits and problems arising from PFI. On the one hand, there is improvement in terms of the management of construction contracts and, on the other, there are potential problems which are a result of the discrediting of the appraisal process if it becomes associated with excessive gaming. The paper has indicated the link between VFM tests and accounting treatment decisions. In particular, it is noted that reduction in construction risk may result in large VFM gains. However, accounting regulation in the UK requires that this should not influence the decision on accounting treatment. The interpretation of VFM is further complicated by the process of public sector fragmentation linked with New Public Management: affordability to the client is not necessarily the same as VFM for the whole public sector.

In a study of NHS hospital PFI projects, Froud and Shaoul (2001) also found problems had arisen concerning the transfer of risk. For example, the estimation of risk factors in a number of cases was not fully explained in supporting documents. In addition to this, further issues were highlighted which make it increasingly difficult to determine whether projects provide VFM. These include: the poor quality and incomplete nature of supporting information; a lack of explanation of how the current "best" solution was reached; and problems with the scrutiny of

PFI by oversight bodies where comparisons were not always carried out on a like for like basis.

Further concerns are raised by Mayston (1999), who questions whether appropriate mechanisms have been put in place to establish whether PFI projects will ensure VFM. These concerns in relation to the NHS include the lack of freedom of NHS decision makers to choose between assets provided privately or publicly, or between different forms of private sector involvement; the relaxation of the Ryrie rules where there was a requirement for expensive private finance projects to pass a VFM test; the large amount of commercial confidentiality needed; the involvement of large construction companies with financial objectives which differed from those of the NHS; and contracts the length of which result in the limitation of future flexibility. However, despite these criticisms of projects within the healthcare sector, an early study by McKendrick and McCabe (1997) *had more* positive findings. This study found that the Stonehaven Community Hospital PFI project was a success, suggesting that it is the small-scale affordable projects which offer VFM and that the major problems lie with the provision of large new acute hospitals. Despite the success of this project, the authors are not as positive about the future of PFI. They predict that PFI seems likely to bring problems and delays rather than success and that it will take time to realise any benefits.

Looking at private investment in a different setting, Shaoul (2002) considers the appraisal of the London Underground PPP. This study highlights a number of factors that severely limit VFM. For example, Shaoul observes that the NPV approach is limited by its origin in the private sector to maximise shareholder wealth. Within the public sector, this approach narrows public interest to proxy that of a shareholder; this limitation is increased by the fact that public sector organisations do not maximise wealth in terms of finance. Furthermore, many practical problems were uncovered in this study. These included the appropriateness of the discount rate and the difficulties of the prediction of cash flows over a long period of time. The latter problem is highlighted by projects such as the London Underground PPP, which spans over 30 years and for which there is insufficient information about the condition of the assets; London Underground must establish the costs of meeting a defined level of performance where the performance is dependent on travel patterns which will change throughout the life of the project.

Affordability

The matter of affordability is a contentious issue (Gaffney and Pollock, 1999; Shaoul, 2002). As noted above, this is seen as an important requirement in appraisal, as there is no guarantee that the best option in terms of VFM will necessarily be affordable (Froud and Shaoul, 2001; Shaoul, 2002). However, despite its acknowledged importance there is no prescribed methodology for the assessment of affordability and it is often ignored. For example, the affordability test was dropped from the criteria for the London Underground PPP, with VFM being the only financial criterion used. Shaoul (2002) carried out a financial appraisal of this project and found that the PPP was not affordable, with payments

only being met by public subsidy and a reduction in passenger services. Other studies of PFI projects have also highlighted their failure to demonstrate the meeting of this criterion. For example, Gaffney and Pollock (1999) looked at NHS PFI projects. They discovered that PFI has led to increases in infrastructure development costs and, as a result, both NHS trusts and health authorities have been required to make savings on other budgets to ensure that the high costs of investment are affordable. The PFI has made the pressure to reduce the costs of clinical services worse, without passing the benefit of savings back to the public sector. These affordability problems are being subsidised through national and regional capital budgets as they could not be met by locally available NHS resources. The PFI schemes have failed to deliver within the affordability limits originally set and these limits have had to be altered. The findings here give no reason to believe that the problems highlighted will disappear as the amount of PFI investment increases.

Froud and Shaoul (2001) note that there was far less information on affordability than on VFM in their study of NHS PFI projects and, furthermore, mostly the same information was used for both. They also highlight a number of affordability problems which came up within the proposals, including: the scaling down of required outputs; the provision of additional funds to make plans affordable; and the transfer of land and assets on extremely favourable terms. These affordability issues are highlighted in a study by Shaoul (2003) of the National Air Traffic Services (NATS) PFI project. This project was a failure and has had to rely on the Government to keep it from bankruptcy. In this case, the Government failed to justify the project in terms of its own appraisal requirements for a PPP. In terms of the debate on PFI/PPP, most relates to VFM, with little consideration of affordability. Affordability problems surfaced in the NATS project when additional costs could not be met because revenue costs were not within management control. Affordability seems to have been ignored in terms of appraisal methodology and in the practice of evaluating PPPs. The findings suggest that, given that public services are essential, the Government cannot allow them to fail and as a result become bankrupt. Therefore the concept of risk transfer is flawed.

Accounting disclosure

The much debated accounting question which surrounds PFI is whether the PFI project should appear on the balance sheet of the purchaser, the operator, both or neither. One of the initial drivers of PFI from the Government's point of view was that the asset would not appear on the balance sheet of the public sector organisation. In other words, PFI is a source of off-balance sheet finance. In practice, this issue has been far from straightforward, with conflicting views on whether this off-balance sheet treatment of the assets of the public sector is appropriate. Problems have arisen as a result of this uncertainty. For example, Heald (2003) highlights that there is a danger that PFI contracts are being pursued for accounting reasons such as obtaining off-balance sheet finance, rather than the Treasury aim of securing VFM. Broadbent and Laughlin (1999) give further

evidence of problems when they note that, if a project must be placed on the public sector balance sheet, then the Government is unlikely to approve the PFI contract.

One of the main reasons for this confusion in terms of accounting can be assigned to the lack of guidance on accounting for PFI (Hodges and Mellet, 1999). They review how testing costs have been dealt with in the accounts of NHS Trusts and also consider the treatment of costs and financial obligations by trusts under PFI contracts. Their examples indicate a trend of increasing narrative description of the beneficial impact of PFI schemes along with an absence of financial disclosure, especially in the summarised accounts. This suggests a failure of voluntary disclosure and that a tighter prescription of requirements in the annual reports and summarised accounts of trusts is needed. The approach adopted by the trusts seems to remove all aspects of the financial consequences of PFI schemes from their published reports. Testing costs have been written off while the underlying resources in use and the associated commitments to pay have not been reported. The findings here bring into question the role of published annual reports and accounts of trusts and the extent to which they will continue to support public accountability by providing voluntarily information about the existence and size of future liabilities. The evidence suggests that these problems are likely to continue unless guidance on disclosure requirements is clarified and enforced.

In terms of guidance on the treatment of PFI in the annual accounts, this has been issued by the Accounting Standards Board (ASB) through an amendment to FRS 5 and by the Treasury Taskforce Private Finance Policy Team. The final version of the ASB amendment to FRS 5 required the identification of who bears the risks and rewards attached to the property in order to assess who controls the asset; it also required a separation of the property and service elements of the contract. As a result of this amendment, the situation where the Treasury classes PFI transactions as operating leases and off the public sector balance sheet becomes unjustifiable. Mayston (1999) voices concerns that there is no reference in the amendment to FRS 5 to users and their information needs with regard to PFI schemes. He believes that this omission could result in accounting practices being influenced by short term pressures from special interest groups. The ASB's proposed amendment of FRS 5 was opposed by all respondents from the public sector, most of the contractors and the non-accounting professional bodies. The two dominant arguments against the proposed amendment were that: (1) PFI deals are contracts for services and therefore the payments related to these services cannot be split and; (2) construction risk should have a greater weighting in the process of risk allocation than is suggested in the exposure draft. Support for the proposal came from accounting-related respondents such as the large professional accounting offices and bodies (Kirk and Wall, 2001; Hodges and Mellet, 2002; Rutherford, 2003).

Despite these amendments made by the ASB, Kirk and Wall (2001) believe that, in future, it will still be possible for contracts to be drawn up which will result in the asset staying off the public sector balance sheet. However, if the operator is bearing increased risks as a result, the private companies may increase their rates of return on PFI as compensation. This will make it more difficult to obtain VFM

from a PFI project. Hodges and Mellett (2004), however, make clear that they do not see that as being appropriate. They examine the accounts of two NHS trusts – one where the asset and liability are on the balance sheet, and one where they are not. Their findings note that the way that PFI contracts are reported impacts greatly on the results of the reporting entity. They believe that if PFI remains off-balance sheet, then the potential usefulness of financial statements will decrease, there will be problems with comparisons between public sector entities and the user will be left unclear about whether the financial statements show the true financing of public services.

Hodges and Mellett (2002) look at how this accounting for PFI was determined, through a case study approach. The authors had difficulty defining what drove PFI onto the agenda of the ASB. They found that there was no precise element leading directly to agenda formulation – emergence was multi-faceted and dependent on political and environmental issues. The analysis of written submissions to the ASB exposure draft was not sufficient to explain the changes made or not made between the exposure draft and the consequent FRS. The post enactment review, the final stage, will only be appropriate for accounting for PFI after it has been in operation for many years. This research highlights the difficulty of investigating accounting regulation as documentation in the public domain indicates, but does not fully disclose, the presence of other significant influences.

Therefore, while we can observe that the very significant innovation of PFI/PPP has attracted the attention of accounting researchers, this has been in a very particular way. The major focus of accounting researchers has been on the mechanisms of PFI/PPP – the utility of VFM and affordability tests, risk transfer and accounting disclosure. This is a Functionalist paradigm in the terms of Burrell and Morgan's (1985) model. There are other strands of research which correspond to Burrell and Morgan's Interpretive and Radical Humanist perspectives, but this is a minority. Finally, there is no fundamental challenge to PFI/PPP as an assault on the State, i.e. Burrell and Morgan's "Radical Structuralist" paradigm.

BUDGETS IN THE PUBLIC SECTOR

Budgets dominate public sector organisations. They sit at the centre of resource allocation and use. They represent the outcome of deliberations by the different constituencies within public sector organisations. However, the preparation and use of budgets is not generic across the public sector. The public sector is of such complexity that the specific contexts in which budgets are deployed display subtle differences. We therefore examine budgets in the following settings: (1) central government; (2) the NHS and; (3) local government.

The reference points for this research show a sharp contrast. Given the traditional importance of budgets within public sector organisations, we might reasonably expect studies to sit within the Functionalist quadrant. Indeed, there are many such studies. However, there is a comparable amount of activity in which researchers draw on interpretive models of budgeting processes, in which issues of legitimacy and symbolism are found (see Table 2). Also, within these

frames of reference, there are studies which draw on both interpretive and functionalist modes of thought (indicated in italics in Table 2), often in comparative studies. While the area of budgets may be seen as a major area of potential conflict over resources, there is limited research output from the critical school of accounting in the papers in this study.

TABLE 2: FOUR PARADIGM FRAMEWORK FOR BUDGETING

Radical Change			
Subjective	Radical Humanist Edwards et al. (1999)	Radical Structuralist Ezzamel et al. (2005a)	Objective
	Interpretive	Functionalist	
	Collier (2001) Colville (1989) Coombs (1987) Covaleski and Dirsmith (1988) Edwards et al. (1995) Edwards et al. (2000) <i>Ezzamel et al. (2005b)</i> <i>Kurunmaki et al. (2003)</i> <i>Lapsley and Pallot (2000)</i> Lapsley (2001) <i>Levacic (1990)</i> Lowe (2000a) Lowe (2000b) Nyland and Pettersen (2004) Pettersen (1995) Pettersen (2001) Preston et al. (1992) Seal (2003)	Abernethy and Stoelwinder (1990) Abernethy and Stoelwinder (1991) Bourn and Ezzamel (1986) Bourn and Ezzamel (1987) <i>Ezzamel et al. (2005b)</i> Goodwin and Kloot (1996) Glynn et al. (1992) Jacobs (1998) Jacobs and Barnett (1996) Jacobs et al. (2004) Jegers (1996) Keen and Murphy (1996) <i>Kurunmaki et al. (2003)</i> <i>Lapsley and Pallot (2000)</i> <i>Levacic (1990)</i> Likierman (1998) Likierman (2000) Pollitt et al. (1988) Skousen (1990)	
Regulation			

Source: Compiled from the research papers on budgeting examined in this study.

Note: Entries in the above boxes which are in italics refer to papers which have elements of more than one paradigm. Therefore they feature in more than one of the boxes in the above framework.

What follows is an analysis of the budgeting papers included in Table 2, reviewed under their main themes classified either as: budgeting in central government; budgeting in the NHS; or budgeting in local government.

Budgeting in Central Government

The principal theme of the central government budgeting literature is Resource Accounting and Budgeting (RAB). Likierman, who subsequently became Head of the UK Government's Accounting Services with responsibility for the implementation of RAB, looked at the initial progress of the introduction of RAB into central government (Likierman, 1998). This revealed both that a lot of work had been carried out on the implementation of RAB, and that a lot more still needs to be done. Likierman (2000) examined concerns raised over RAB – in particular over issues related to decision-taking in central government. He focused on processes inside central government, not on what is made available for public accountability. There is a public accountability dimension to internal processes, since departments report to parliament and are scrutinised by the public. In as far as internal processes impinge on public policy, they will be subject to public scrutiny. An example is the commentary for output and performance indicators. This will provide information for outsiders, including Parliamentary Select Committees, to question the figures and the basis on which they are used. Likierman's view is that this scrutiny, together with an increasing openness of *government*, will provide plenty of opportunity to review RAB's effectiveness.

There have been few empirical studies of RAB. One significant exception is the work of Ezzamel, Hyndman, Johnsen, Lapsley and Pallot (2005a) which looked at the introduction of RAB into the Northern Ireland Assembly. The perspective taken in this study was that of political and religious conflict and the limits to which the rationalities of accounting logic could impinge on embedded social processes of conflict. They did not find strong support for the idea that accounting information led to more rational decision making in the first term of the NI Assembly. The persistence of political and religious conflict undermined democratic processes of accountability and limited the potential of RAB to inform political and policy decisions.

In the same study setting, Ezzamel, Hyndman, Johnsen, Lapsley and Pallot (2005b) examined the actual use of RAB information in the initial stages of devolution, before the Northern Ireland Assembly was suspended because of political and religious conflict. They found that the experiences of key actors did not mirror official government statements. The findings pointed to: traditional political processes where bid chasing was prevalent; little attention to planning; and a lack of focus on performance. There was also information overload, with politicians struggling to obtain relevant information and confusion between suppliers and users of information. There was some evidence to suggest that, with better continuity in the political process allowing opportunities for greater engagement, learning and development of refined systems, accounting might perform a more substantial role than at present.

Budgeting in the NHS

Increased focus on budgeting in the UK's NHS came about as a result of the Griffiths Report (1983). This report was concerned with the improvement of

control systems within the NHS and the involvement of clinicians in the management process; the central recommendation was the development of a system of management budgeting. Initially, the Griffiths Report faced some criticism that its recommendations had not been carefully thought through (Bourn and Ezzamel, 1986). In general, the early literature observes the dichotomy between the world of hospital management and accountants, on the one hand, and the world of hospital doctors, on the other (Abernethy and Stoelwinder, 1990, 1991; Coombs, 1987) and doubts were expressed over whether clinical budgeting systems would be implemented successfully and accepted by clinicians. We now examine key developments in the NHS, focusing on: (1) budgets and doctors; (2) budgets for general practitioners (GPs) and; (3) the wider application of budgets in the NHS.

Budgets and doctors

Some of these obstacles to implementing management budgeting in a healthcare setting are highlighted in the study by Bourn and Ezzamel (1986), in which they stress the main problems to be that: budgeting may be perceived as limiting clinical freedom and increasing clinician accountability; problems exist with definition and measurement of outcomes and performance; technical accounting problems, such as treatment of overheads, exist; and the difficulty of educating clinicians in terms of getting them to accept the idea of control within the context of clinical freedom. These problems are emphasised further in a study by Bourn and Ezzamel (1987). Here they identify issues which have arisen during trials involving management budgeting in four Health Districts. One of the major challenges encountered was in gaining support from medical staff. This was found to be an extremely slow process and, in one case, serious opposition from a medical consultant was encountered. Problems also existed in terms of allocating budgets to appropriate accountable budgetary groups – Diagnostic Related Groups are the most commonly used, but these have encountered criticism for failing to reflect variations in the severity of illness of patients within a group.

Further studies also look at the experiences of attempts to involve medical staff in the budgeting process. Many note that, despite the importance that has been placed on it, clinical budgeting has widely been viewed as a failure. Attempts to pinpoint the reasons for this failure are made by Pollitt, Harrison, Hunter and Marnoch (1988). Here it is suggested that problems occur due to differing priorities of the various groups involved in budgeting which can lead to conflict. Budgeting was also found to be restricted by boundary, position, information and authority rules. The evidence from this study found that even those participants that supported management budgeting did not tend to give it much priority. The paper does not hold a positive view about the future of clinical budgeting, noting that commitment to clinical budgeting was weak. Preston, Cooper and Coombs (1992) confirm these findings by demonstrating the fabrication of clinical budgets.

Jacobs, Marcon and Witt (2004) made a comparative assessment of the attitudes of clinicians towards cost and performance information in Italian, German and UK hospitals. Both German and Italian clinicians felt that cost information was

important to clinical decisions, but the UK clinicians did not. In general, clinical staff had poor access to information, with formal systems of reporting only operating at the most senior levels. German and Italian senior clinical staff were more satisfied with the quality of information than those in the UK. This study provides some evidence that clinical staff do wish to take responsibility for costs, with most of the German and Italian clinicians believing that they did have a responsibility for costs and that both cost and activity reports have a substantial impact on clinical decisions. In terms of accountability, a larger proportion of German and Italian doctors were willing to say that they were accountable to management than those in the UK.

Despite the reports of failed systems of management budgeting within healthcare, there are studies which provide evidence that clinical budgeting can be successful in specific settings. Lapsley (2001) studied the introduction of budgets for hospital doctors in Scotland. In this study, there were clinical budgetholders who embraced management budgeting, showing that it can work in specific settings. This contrasts with other results which report consistent failure of clinical budgets. This success is attributed to different implementation processes in Scotland and England. The study notes the significance of the different situation:

the Scottish story has shown that this slower pace of reform resulted in a variant of the initial reform (management budgeting) taking hold in the wake of the failure of the subsequent reform (resource management). (Lapsley, 2001, p. 106)

That budgets and doctors do not sit well together is an international phenomenon and there are a number of studies which highlight this. Abernethy and Stoelwinder (1990) studied the involvement of medical staff in the management of Australian hospitals, and reported that 'the organisation structure of hospitals does not facilitate management control and participation of healthcare professionals' (p. 18). The results supported the idea that formal planning and control mechanisms limit the autonomy which clinicians seek. However, Lowe (2000a, 2000b) in his studies of a New Zealand hospital provides contrasting evidence, with many health professionals being involved in the implementation of case-mix and clinical coding systems. Nyland and Pettersen (2004) examined the link between budgets, accounting information and the decision-making process at both strategic and operational levels in a large Norwegian hospital, and their findings corroborated those of Pettersen (1995, 2001). These revealed loose coupling between budget decisions and activity consequences. Such studies demonstrate the complexity of this study setting.

Budgets for general practitioners

There are a number of studies which specifically assess the impact of GP budgetholding. An assessment of the first set of GP practice budgets in the UK was made by Glynn, Murphy and Perkins (1992). Through their case study of a Family Health Service, they found that the first fundholders were happy with the terms of their budget; the budgets were generous and allowed the practices to offer improved services to patients. There were initial concerns that some practices

might make a surplus which might fund activities not directly related to the benefit of patients or increased profits, but this did not happen.

Despite a number of UK studies, including the above, implying that GP budgets can work, Jacobs and Barnett (1996) found a different situation in New Zealand where progress has been extremely slow. The main reason given for this is the historical healthcare framework and, in particular, the fee-for-service system, which meant that the only relationship most GPs had with statutory health authorities was administrative. They believe that a critical factor for the success of budgetholding in future will be the establishment of effective negotiating relationships between practices and the purchasing health service. By contrast, a further study by Jacobs (1998) carried out a review of the development of cost and budget reports in New Zealand general practices. These accounting systems were viewed by GPs as an extension of the medical education process. Furthermore, they felt that the monthly reports made them more aware of their own behaviour and, in turn, better GPs. The accounting system was not seen as a managerial threat but as part of the peer review process. The GPs were comfortable with this scrutiny because it came from GPs, as opposed to administrators or bureaucrats. These findings are indicative of different subcultures within the medical profession, with different responses to accounting information.

Wider applications

An interesting phenomenon to emerge in health care budgeting studies is the manner in which there has been a narrowing of focus on specific medical areas, such as intensive care. Both Jegers (1996) and Kurunmaki, Lapsley and Melia (2003) look at the role of budgets within a more specific healthcare setting: that of intensive care units. The earlier of these two studies is a "Functional" investigation by Jegers that encompassed 12 European countries and found that there was no budget in place for a large number of intensive care units (ICUs). The findings point to non-systematic diversity. The management of hospitals/ICUs had the ability to put in place fairly sophisticated budgetary control systems; however, this does not seem to be a requirement in most of the countries investigated. A further issue highlighted was the problem of cost calculation in the majority of the ICUs.

The later study by Kurunmaki et al. (2003) focused on the UK and Finland, and draws on both instrumental (functional) and interpretive references. This study found a decoupling of service delivery by professional and managerial activity which was possibly reinforced by the work of clinicians in the ICU. The findings reported differences between the UK and Finland. In Finland, there was no established management accounting profession and healthcare professionals were willing to take on the role of the accountant. They were willing to accept financial targets and financial responsibilities. In the UK, health care professionals hold a dominant position in hospitals. The situation was one of accounting as a legitimating function where accounting facts, figures and arguments are gathered to place a guard over the activities of the core – the health care professionals. The role of the management accountant was to make sense of budgets after the event, rather than to use accounting information to plan activity. The management

accountant is seen as a defender of clinical practice rather than as a negative influence criticising those who overspend.

Budgeting in Local Government

Local governments are inherently complex institutions. Not only do they offer a wide range of services (covering road maintenance, care of the elderly, education for children, leisure facilities, street lighting, refuse collection, social care, *inter alia*) they are also distinctive in the existence of a political overlay of representatives who are elected to shape policies. Within this structure, the establishment of local taxes is a most important policy decision. This is at the heart of budget setting in local government. There have been numerous studies of budgetary practices in local authorities. Edwards, Ezzamel and Robson (1999) demonstrate the nature of accounting as a colonising force in education budgets in local government. However, most of the studies demonstrate a continuing commitment to budgetary devolution, but with variations in implementation (Skousen, 1990; Keen and Murphy, 1996; Seal, 2003). We examine these considerations before discussion of the extensive research on operational services, particularly police (Colville, 1989 and Collier, 2001) and education (Levacic, 1990; Edwards, Ezzamel, Robson and Taylor, 1995; Edwards *et al.*, 1999; Edwards, Ezzamel, McLean and Robson, 2000). There is a growing interest in comparative international studies of management accounting in local government (Goodwin and Kloot, 1996; Lapsley and Pallot, 2000).

There are a number of studies which have focused specifically on the implementation of budgeting in local government. One of the earliest is by Skousen (1990) who studied budgeting practices of local government in England and Wales. This study found that the budgetary process was dominated by financial stewardship requirements, with the finance department statements largely aimed at disclosing the budgetary compliance position, rather than controlling the economy, efficiency and effectiveness of operations. Keen and Murphy (1996) also looked at devolved budgeting in local government, where devolved budgets were regarded as increasing responsibility and accountability, rather than increasing authority. Structural problems are also highlighted by Seal (2003), who suggests that one of the greatest hurdles in implementing reforms is the tendency for local government to be organised around providers who have a propensity to take a very departmental attitude towards their activities. In the financial sphere, this departmentalism is reflected in incremental budgeting which is Seal's primary focus. Seal suggests that a continuous and rigorous regime of inspection, coupled with new crosscutting initiatives, demonstrates that the challenge to long-standing budgetary practices is greater than ever before.

The above studies describe budgeting in local government in general terms. However, there are a number of studies which focus on specific areas in more detail. These studies increasingly draw on interpretive perspectives (Covaleski and Dirsmith, 1988). We explore different local government operational settings, with specific focus on the police and education.

Police

The study of police budgets has been conducted by drawing on interpretive approaches. Colville (1989) demonstrated the complexity of budgetary processes. Also, Collier (2001), in his study of devolved police budgets, discovered initial resistance. However, another finding from the study is how accounting, in particular devolved budgets, facilitated loose coupling. In addition, this loose coupling brings forward the common interests that might be shared between those pursuing legitimization and those pursuing technical work activity.

Education

The introduction of budgets as part of the local management of schools started in England and Wales with the Education Reform Act of 1988. An early study by Levacic (1990) of pilot schemes was functional in approach, and this highlighted the problematic nature of devolved budgets in schools. More recent studies have drawn on institutional theory to examine the implications of devolved budgets. Edwards et al. (1995) showed that these budgetary reforms in schools were linked to external demands for legitimization rather than organisational needs. In this way, Edwards et al. (2000) found budgeting was uncoupled from the “productive” activities of the organisation and the aim of quality in education. Similarly, Edwards et al. (2000) demonstrated in local education authorities that educational strategies and the budgeting of resources were to satisfy external legitimacy rather than to influence internal decision-making.

There is increasing interest in comparative international studies of management accounting in local government from functional and interpretive perspectives. Goodwin and Kloot (1996) conducted a comparative study of budgeting in Australian and New Zealand local authorities, specifically by relating budgeting to strategy. This study had a functional or instrumental perspective. It demonstrated that there was a clear relationship between strategy processes and budgeting, and specifically that budgeting ambiguities undermined the link with strategy. A further comparative study (Lapsley and Pallot, 2000) demonstrated the significance of study settings in understanding how management accounting is regarded in local government. This study revealed the instrumental nature of management accounting's use in New Zealand. However, in the more complex (as regards scale of activities, mix of services and political setting) environment of the UK, management accounting was seen to be deployed as a legitimating device.

CONCLUSION

The public sector started as part of a move to create a more inclusive society. It also was part of a movement to have a greater State involvement in economic planning. These propositions are not universally accepted and this contested arena has created a rich environment for accounting researchers. In this paper, we narrow the focus to two areas: (1) Private Finance Initiative/Public Private Partnerships (PFI/PPP) and (2) Budgets. The PFI/PPP is a recent phenomenon. It can be seen as

a fundamental challenge to the public sector's continued existence. Budgets are central to the management of public sector institutions.

In analysing these two areas, we have drawn on Burrell and Morgan's framework of sociological paradigms, Functionalist, Interpretive, Radical Humanist and Radical Structuralist, to locate different research approaches. The pattern to emerge on the basis of this study reveals the manner in which many studies of the public sector continue to deploy an instrumental or Functional perspective, but there is a strong Interpretive presence in both studies of PFI/PPP and budgeting.

Interestingly, there are signs of a series of studies which explore multiple paradigm approaches, mainly by analysing the implications of different approaches to explaining events and practices. There is also a rather limited presence of critical accounting research within the papers identified as part of this study, which is surprising given the public policy implications of budgeting for public sector initiatives and the continued spread of the PFI/PPP developments.

While there have been many studies which are critical of PFI/PPP, we see these as focusing on the mechanisms and details of PFI/PPP, rather than mounting a fundamental challenge to the concept; the theoretical perspective, in other words, is not overtly Critical. So, while the boundaries of public sector accounting research are being redrawn on the basis of this paper's evidence, it is happening in a very distinctive way. In particular, there are continued studies of new and longstanding accounting practices and how they do/do not work, and more and more studies seeking to locate public sector accounting innovations within an interpretive framework. However, the continued dominance of the Functionalist paradigm seems set to continue within accounting research, particularly as new accounting technologies and the refinements of existing accounting technologies are undertaken. Less predictable is the likely impact of Critical studies of public sector accounting research, which appear to have had a lesser impact than might have been expected, given the public policy importance of these accounting developments and practices.

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