Reform as regulation—accounting, governance and accountability in UK local government

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Abstract: This paper is an attempt to theorise the recent changes to accounting practices in local government in the UK. The principal theory used is regulation theory, which incorporates aspects of hegemony theory and governance. Regulation theory attempts to explain major changes in national economic structures by examining underlying systems of capital accumulation, regulation and hegemony. Central to these structures and systems are the role and operation of the state and its institutions. Changes in economic structures will result in conditions, which favour different governance structures for these institutions; comprising markets, hierarchies, civil society, and heterarchic combinations. Several researchers in these areas have characterised ‘traditional’ institutional practices as Fordist and are associated with a particular approach to regulation. However, the underlying economic structure is seen to be in crisis and a new Post-Fordist regime may be emerging. Post-Fordism is associated with new institutional practices, particularly decentralised management, contracting out of public services, extended use of public private partnerships and concerns for value for money, charters and league tables. The introduction of such practices may therefore be explained by the changes in underlying structures rather than as a teleological development of accounting. Moreover, some researchers have characterised such changes as representing a fundamental shift from government to governance. The very nature of the relationship between governance, accountability and accounting may therefore have also changed. These issues are explored in the paper.

Keywords: Regulation theory; local government accounting; governance; accountability; new public management.

1. Introduction

The main purpose of this paper is to attempt a theoretical understanding of the changes to accounting and financial management in local government as a consequence of the reforms in local government management since the mid 1970’s. There is great contemporary interest in using the concept of governance to understand the workings of social institutions, ranging from analyses of economic and societal structures, to analyses of organisational forms and normative
approaches to ethical management. This paper attempts to draw upon all of these different approaches, as discussed below.

The principal theoretical approach to be used is regulation theory, which combines economic analysis of capital accumulation and crisis, with analyses of hegemony and modes of regulation, to explain changes in national economies and social relations. Regulation theory places emphasis on the role of the state, its institutions and organisational structures and processes in the changing nature of society. It is therefore of particular relevance to understanding the changes in accounting and financial management in local government. Particular emphasis in this paper is placed on the change from Fordist modes of regulation to Post-Fordist modes identified by regulation theory. These two modes are associated with quite different characters and roles for the state and also quite different structures and organisational forms and practices. It is the emerging Post-Fordist regulatory regime which may explain the recent reforms and answer such questions as why reforms have continued even after a change of government and after so little evidence of success has been produced. Indeed it is not clear whether there is a place for local government in a post-Fordist regime at all? However, it is also unclear whether post-Fordism is part of a continuing process of crisis resolution or whether a period of stability has been reached.

Use is also made of governance theory in this paper as it complements regulation theory at the organisational level, by providing a framework for understanding the new governance structures, which are emerging under post-Fordism.

There have been few attempts in the public service accounting literature to develop rigorous theoretical explanations of public sector reforms and accounting to date. One such attempt was by Ezzamel and Willmot (1993) who used markets and hierarchies theory to discuss New Public Management (NPM) until around 1990. NPM has been defined by Rhodes (1996) as comprising two aspects: the introduction to the public sector of private sector management methods such as professional management, explicit standards and measures of performance, managing by results, value for money and closeness to the customer; and institutional economics particularly the introduction of competition, disaggregating bureaucracies, contracting out, quasi markets and consumer choice. The former was dominant in the period to 1988 and institutional economics from 1988 to 1997.

The second purpose of the paper is to consider the consequences for accounting and financial management in local government in light of the insights gained from the theoretical understanding. In order to facilitate this analysis the changing nature of governance and accountability in local government is discussed. It is argued that existing views on governance and accountability as well as existing approaches to financial management will need to be revised as the Post-Fordist regime develops and deepens.

The paper commences with a discussion of regulation and governance theory and outlines the main components of Fordism and Post-Fordism. This is followed by a review of the research into NPM in local government, informed by regulation and governance theory. Recent developments in local government are discussed next, using a Post-Fordist analysis. Finally, the consequences of this theoretical explanation are discussed with respect to the concepts of governance and accountability and the implications for accounting and financial management in local government are assessed.
2. Theories of regulation, hegemony and governance

Regulation theory was first developed in France by Aglietta (1979) to explain how capitalist social relations were reproduced in the face of internal contradictions. The research was initially based on an analysis of the US, particularly since the inter war years. Developments of capitalist economies are understood in terms of periods of stability interspersed with periods of crisis. In order to ensure reproduction of capital it is necessary to regulate the internal contradictions, hence the title regulation theory (Painter, 1991). There have subsequently been many schools of research within regulation theory ranging from the economic emphasis of the French school to the social relations and state emphasis of the West German school (Jessop, 1990). It is this latter school, of whom Hirsch has emerged as the principal proponent that this paper draws upon most.

Dunford (1990) has characterised regulation theory as synthesising at least three important elements: a regime of accumulation, a mode of regulation, and a hegemonic structure. A regime of accumulation is a systematic organisation of production, income generation, exchange of the social product and consumption. Aglietta identified several different regimes of accumulation culminating in a period of intensive accumulation after the Second World War, ‘in which the capitalist class seeks overall management of the production of wage labour by the close articulation of relations of production with the commodity relation in which the wage earners purchase their means of consumption’ (Aglietta, 1979, p.117). This period of mass production and mass consumption has been termed ‘Fordist’.

‘Mode of regulation’ refers to the specific local and historic collection of structural forms or institutional arrangements through which economic life is transacted and which result in regular overall processes in economic reproduction. These arrangements comprise four major social relations: the monetary system and mechanisms, mechanisms connected with regulation of wages, modes of competition and the character and role of the state (Dunford, 1990). These structural forms develop during periods of crisis and their emergence is contingent and occurs as a result of social struggle. The stable period between crises is the result of structural forms acting together. The structural forms that emerged with Fordism included the institutionalisation of collective wage bargaining, monopolistic rather than competitive economic structures, the extension of state functions in investment, planning and fiscal policy and social security and welfare systems to protect the new working class consumption (Painter, 1991).

‘Hegemonic structures’ are developed from Gramsci’s work. He developed the concept of hegemony which Bates (1986) defines simply as political leadership based on the consent of the led, a consent which is secured by diffusion and popularisation of the world view of the ruling class. Whichever class achieves this political leadership, or hegemony, will determine which range of outcomes of social development prevails. A hegemonic class is one, which gains the consent of other classes and social forces through creating and maintaining a system of alliances by means of political and ideological struggle. Moreover, once a hegemonic class has combined leadership in civil society with leadership in the sphere of production, an ‘historic bloc’ is established and may endure for an entire historic period (Simon, 1982). However, hegemony can never be taken for granted and the three spheres of society are in constant flux resulting in the need for persistent activities to maintain and strengthen the ruling class in civil society and the making of such compromises as are needed to adapt the existing system of alliances to changing conditions. However, occasionally an organic crisis may occur and during this period of instability and transition, the system of alliances forming the basis of the hegemony may
have to undergo far-reaching changes and a process of restructuring if it is to survive. The crisis will consist of a struggle to create a new balance of political forces, requiring a reshaping of state institutions as well as formation of new ideologies; and unless effectively challenged the ruling class will re-establish its hegemony, although a new historic bloc will have been established. Historical development can therefore be seen as a series of organic crises followed by new historic blocs, which establish hegemony over a period of relative stability.

At the core of Gramsci’s conception of hegemony is ideology. Hegemony is not to be found in a purely instrumental alliance between classes which retain their individuality and own ideologies, but rather it involves the creation of a higher synthesis so that all its elements fuse in a ‘collective will’ which becomes the protagonist for political action throughout that historic bloc (Mouffe, 1979). It is through ideology that this collective will is formed since its very existence depends on the creation of ideological unity, which will serve as ‘cement’ (Gramsci, 1971). Ideology provides the basis for intellectual and moral leadership within the hegemony. Jessop (1983) has suggested that the state undertakes hegemonic projects, which comprise political, institutional and moral strategies in which the ‘collective will’ is identified with an institutional and policy framework and programme of action, which advances the long term interests of the hegemonic class. Fordism was associated with a class compromise centred on the ideological project of the Keynesian welfare state in which the working class was incorporated into a state that advanced the interests of industrial capital with an offer of modernisation, social reform, individual consumption, equal opportunities and a steady economic advance (Hirsch and Roth, 1986; Dunford, 1990).

To summarise, regulation theory explains the reproduction of capitalism through an analysis of periods of crisis and stability utilising the interactions between regimes of accumulation, modes of regulation and hegemonies. It is the mode of regulation and associated hegemony that is of most interest to this paper as it is in these domains that changes will have significant impact on the role and character of the state and modes of work organisation, which in turn, will impact on accounting in local government. Regulation theory suggests that the UK is currently experiencing a period of crisis of Fordism and possibly the emergence of a new period of stability.

Fordism entered a period of crisis of accumulation during the 1970’s as the rate of profit declined, internationalisation of production accelerated, unemployment rose and welfare costs escalated. Hirsch (1991) identifies further aspects of the crisis of Fordism. These include the crisis of Taylorist organisation of work as it became difficult to recruit workers for badly paid, monotonous jobs. Global competition also created a crisis of the interventionist state as the need to modernise resulted in increasing social costs. Moreover, the state supported technological monopolies of big industry became an obstacle to innovation because of their inflexibility and planning problems. Further crises in consumerist values and the ecology all pointed to an organic crisis.

Although it may be too early to know whether a stable post-Fordist period may now be emerging associated with new modes of regulation and hegemonic structures (Tickell and Peck, 1995), it does seem that the Fordist hegemony is over. Burrows and Loader (1994) crudely define post-Fordism as being characterised by an emerging coalition between flexible production, differentiated and segmented consumption patterns, post modernist cultural forms and a restructured welfare state. Jessop (1992, 1994) suggests the emerging post-Fordism is based on a new labour process relation defined as a flexible production process based on flexible machines or systems and an appropriately flexible workforce supported by micro
electronics-based information and communication technology. The regime of accumulation is permanently innovative based on the dominance of flexible production. The mode of regulation is based on the twin principles of flexibility and supply side innovation. The regulation of wages would include skill polarisation, flexible labour markets, decentralised pay bargaining and new forms of social wage. The modes of competition have seen a shift from hierarchic, bureaucratically dominated structures to flatter, leaner, more flexible forms of organisation, including forms of organisation between hierarchy and market (see below) and contracting out of functions. The monetary system and mechanisms are dominated by private, globalised bank credit, with state credit subject to limits set by the logic of international money and currency markets.

However, the changes in the role and character of the state are of most interest to this paper. Jessop (1994, p.24) argues that there has been a structural transformation and fundamental strategic reorientation of the state, resulting in a change from a Keynesian welfare state, associated with Fordism, to a ‘hollowed out’, Schumpeterian workfare state, whose objectives are ‘to promote product, process, organisational and market innovation in open economies in order to strengthen a ... structural competitiveness of the national economy by intervening on the supply side; and to subordinate social policy to the needs of labour market flexibility and/or the constraints of international competition’. ‘Hollowing out’ refers to the diminution of nation state power as a result of internationalisation, on the one hand, and the devolution of power to restructured local or regional levels of governance within the nation–state, on the other. Moreover, the emergence of horizontal networks of power further diminishes nation-state power.

Hirsch (1991) sees a post-Fordist hegemony emerging in which state regulation is achieved through state regulated commodification of civil society which is itself strongly segmented and divided. The state offers new, highly differentiated and flexible forms of state regulation, appropriate to the segmentation of the working class and the greater flexibility of production characteristic of post-Fordist capital accumulation. He suggests a further restructuring of the welfare state is likely to promote elites (including selective privatisation, help for self help and re-stratification of the education system) and to regulate poverty (including reformed social security). Eventually the post-Fordist state might lead to a loss of importance of collective institutions and organisations and ‘de-bureaucratisation’.

Jessop (1994) sees evidence of the new post-Fordism in British public services by its adoption of new flexible, decentralised work processes; by the changing role of the state economic sector including the abolition of tripartite bodies and creation of supply side agencies and partnerships between government and business; and by post-Fordist societisation such as the shift within education towards training, changing patterns of house ownership, the remodelling of social institutions along the lines of commercial enterprises, concerns for value for money, charters and league tables, the transfer of services to the community and out the government budget and the insistence that local government exercises its newly restricted powers in partnership with business and the ‘third sector’ of opted out and voluntary bodies. The resulting new state form is congruent with the regulation of the new regime of accumulation. It should be said that this analysis has been criticised as being too premature (Tickell and Peck, 1995) and that the search for new institutional fixes for the crisis continues.

However, what is clear is that a major component of the new regulatory regime is a restructured, hollowed out, state and a major aspect of this state is its decentralised nature and fragmented forms of organisation. Indeed, this may be a part of a process of change from
government, characterised by hierarchical structures, to governance, characterised by complex networks. At this point regulation theory has much in common with and is complemented by, theories of governance. Such theories are based on the relations between actors in society rather than analyses of complete social/economic/historical developments. They are based on micro analysis rather than macro analysis. There is a well established literature in accounting based on economic governance theories rooted in transaction costs. Such approaches originally dichotomised markets and hierarchies as modes of organisational form or governance based on the most efficient in terms of transaction costs given certain contexts (Williamson, 1975). Ouchi (1980) extended this analysis to include clans as an alternative governance form in circumstances of ambiguity and uncertainty over performance measurement. Such approaches have been criticised as overly reductionist and simplistic, but nevertheless may be valuable as heuristic devices (Ezzamel and Willmott, 1993).

Perhaps of more interest to this paper are the governance theories emanating from other social sciences. One such approach is to replace or extend the market/hierarchy dichotomy with the concept of networks, based on ‘the recognition that firms are blurring their established boundaries and engaging in forms of collaboration that resemble neither the familiar alternative of arm’s length market contracting nor the formal ideal of vertical integration’ (Powell, 1990, p.330). Networks are based on relationships between actors rather than the price mechanism of the market and the employment contract of the hierarchy. Individual units exist in relation to other units and these relationships take considerable effort to establish and sustain. Trust, complementarity and accommodation are the cornerstones of successful networks (Powell, 1990). The ‘entangling strings’ of reputation, friendship, interdependence and altruism become integral parts of the relationship (Macneil, 1985). Interestingly, Powell suggests that networks are most appropriate for circumstances in which there is a need for efficient, reliable information as information is trusted more when it emanates from a well known source. Thus networks are especially useful for the exchange of commodities whose value is not easily measured, like many public services.

Stoker (1999) defines governance as self organising, interorganisational networks with four characteristics. These are interdependence between organisations, including public, private and voluntary sectors; continuing interactions between members to exchange resources and negotiate shared purposes; game-like interactions rooted in trust and regulated by agreed rules; and a significant autonomy from the state. Jessop (2000) uses a similar concept, heterarchy, defined as horizontal self organisation among mutually interdependent actors. Heterarchies include interpersonal networking, interorganisational negotiation and centred, intersystemic steering. He suggests that heterarchies economise on the bounded rationality and opportunism problems of markets and hierarchies by instituting negotiation around long term, consensual projects as the basis for coordination amongst actors. The key to success is continued commitment to dialogue in order to generate and exchange information, to weaken opportunism by locking partners into a range of interdependent decisions and encouraging solidarity (Jessop, 2000).

Stoker (2000 p.3) takes a more political view of governance and defines it as ‘a concern with governing, achieving collective action in the realm of public affairs, in conditions where it is not possible to rest on recourse to the authority of the state. Governance involves working across boundaries within the public sector or between the public sector and the private or voluntary sector’.
To summarise, regulation theory indicates that a new accumulation, regulation and hegemonic regime of postFordism is emerging. This has consequences for state structures and organisational forms and processes, particularly with the emergence of decentralised, network based governance structures and NPM. Governance theory provides a template to examine the consequences of these changes for governance, accountability and accounting in local government.

3. Post-Fordism and new public reforms in local government

3.1. Period to 1997

In this section the literature specifically concerned with regulation and governance theory and local government in the UK is outlined to examine the consequences of recent changes in this sector and to establish whether evidence has been found of the existence of post-Fordism and the emergence of governance networks to replace markets and hierarchies. There has recently been a major research programme, the ESRC Local Governance Programme, into the transformation of local government structures in the UK. This programme has drawn extensively upon theories of governance and to a lesser extent on regulation theory. It provides a rich source of data concerning the emergence of networks and the political and managerial consequences.

Painter (1991) suggests the local state fulfills two roles in regulation theory, first it is part of the mode of regulation and the site of new structural forms; second, it is implicated in the crisis of Fordism. Local government was an important element of Fordist regulation as it provided a range of services that were unprofitable for capital, was involved in planning and regulatory activities and provided a consensual base for social democratic politics by way of its representative nature. It was also implicated in Fordism’s crisis, which Aglietta (1979) characterised as being caused by the limits to productivity growth in mass consumption together with the drain on productivity generated by the escalating costs of public services. Moreover, Aglietta places reduction of state expenditure through new structural forms such as privatisation at the centre of any new regime of accumulation.

Hoggett (1987) suggests that changes in production processes associated with post-Fordism can also be seen in local government, particularly with respect to decentralisation. Geddes (1988) has suggested that three new state forms have emerged, privatisation, new production methods based on IT and a change in the mode of functioning of the state apparatus towards a more flexible, selective and dynamic one. Stoker (1989) also suggested that local government production processes were changing in tune with private sector developments and increased involvement in producing local services. Stoker also identifies post-Fordism in local government by its more competitive environment comprising diversity and consumer choice for services and new forms of political management with less autonomy for elected officials. However, Painter (1991) was critical of the claims of changes in production processes in local government, although ten years on there may be more evidence of post-Fordist production processes as discussed below.

Painter and Goodwin (1995), in their study of regulation theory and local governance, argue that regulation is tendential and highly differentiated over time and space. They note the shift from government to governance resulting in a diverse, complex, interconnected network of regulatory institutions and practices. In later work (Painter and Goodwin, 2000) they provide an
analysis of the functions within a post-Fordist mode of regulation, which would have to, or might be, fulfilled by local governance. They summarise these functions as follows, ‘Under post-Fordism, international economic competitiveness would be paramount and social policy would be subordinated to supply side requirements, particularly the need to provide a flexible labour force with training matched to the requirements of private investors. In consequence, new forms of coordination between public and private sectors (governance) would be required to maintain the subordination of social need to economic competitiveness politically, and to ensure that the supply side was indeed tailored to the needs of the private sector. Welfare policy becomes decoupled from economic development and increasingly a mechanism for mitigating the social consequences of the restless search for competitive advantage. As it is no longer central to the mode of growth, welfare need no longer be provided or underwritten by the state, and new forms of governance can be introduced’ (Painter and Goodwin, 2000 p.42). They further propose the concept of ‘local regulatory capacity’ to refer to the extent to which the local state and local governance contribute the necessary local elements of the overall management of the tensions and contradictions of a mode of regulation. However, their empirical work indicated that British local governance was not yet becoming post-Fordist, as it was not fulfilling the functions to stabilise capital accumulation.

There is, however, substantial evidence that new forms of local governance are becoming more prevalent, much of which emanates from the case studies of the ESRC Local Governance Programme. At the political level, the emergence and importance of policy networks is well established (Rhodes, 1996). However, many of the case studies indicate that business – local government partnerships were most prevalent in development and economic issues (Harding, 2000; John and Cole, 2000). Networks were more wide ranging with respect to involving the community and voluntary sectors in decision making including environmental issues, land allocation for building and community ownership housing schemes. The case studies found that the role of government was being redefined and a network style of working was becoming paramount. Moreover, these changes were a reaction to the changing informational and financial dynamics of local governance against a backdrop of shifts in the structure of the private sector economy, the effects of globalisation and the complex mechanisms of financial rationing and control (Rhodes, 1999).

In terms of management of local governance the emergence of new forms of partnership and networking, and of new public management were even more evident. Case studies included the explosion of partnership and joint working schemes in housing (Reid, 1999) and the emergence of networks in further education (Riley, 1999), crime prevention (Benyon and Edwards, 1999), local economic development (Morgan, Rees and Garmise, 1999) and community care (Barnes et al., 1999). Case studies also included analyses of new public management initiatives including marketisation and devolved management of schools (Ranson et al., 1999) and the impact of competitive tendering (Doogan, 1999). Overall, the Programme found a shift from a system of direct management, or hierarchy, towards managerialism and quasi-markets, with their emphasis on managerial decentralisation, performance indicators, contracting and purchaser–provider splits, together with a complex network of relationships to manage this new world (Rhodes, 1999). Other changes to local governance, not included in ESRC Programme, included the separation of Social Services provision into purchasers and providers and the extensive contracting out of leisure services to trusts or private companies.

To summarise, there was much evidence that new forms of local governance and organisational processes were becoming more prevalent and that hierarchical, local government
was in retreat, resulting in a hollowing out of the state. However, most of these reforms were undertaken during the Conservative years of government and might be explained in terms of neo-Liberalist attempts to overcome crisis rather than post-Fordism (Hay, 1995). It was uncertain whether these developments were evidence of a post-Fordist period of stable accumulation.

3.2. Developments in local government since 1997

More recent developments, heralded by the Labour administration may be more revealing in respect of assessing the nature and stability of any emerging regime. Indeed, the Labour government has shown a strong interest in continuing the process of management change and reform begun by the Conservatives, albeit possibly in a different style. The drive for new organisational processes via new public management initiatives, based on private sector practices and on marketisation, has continued. However, much more emphasis has been placed on partnerships and networks. These reforms can be seen in ‘across the board’ initiatives such as Best Value, the Private Finance Initiative (PFI), and the ‘modernisation’ agenda; and in service specific reforms in Social Services, Transportation, and Housing.

All these initiatives stem from the Government’s programme of modernisation of the public sector and improvement of public services. Bennington (2000, p.3) encapsulates this initiative as ‘leading and governing local communities in a diverse and continuously changing society involves managing complex and fluid interrelationships between state, market, and civil society, and overlapping relationships between different levels of government. It requires new patterns of inter-organisational networking in order to share the risks and the opportunities of knowledge, creation and innovation’. The Modernising Government (Cabinet Office, 1999) agenda exhorts ‘identification of best suppliers’ and an ‘information age government’; and urges the public sector to ‘set new targets for all public bodies’, ‘monitor performance closely’, ‘revise performance management arrangements’; ‘deliver services that are high quality and efficient’, and provide ‘incentives for public service staff ... including ... financial reward’.

The Best Value initiative, made statute in the Local Government Act 1999, represents almost a complete agenda for this new hegemony. The DETR guidance literature is littered with references to the need for NPM/private sector practices such as ‘the setting of strategic objectives and corporate priorities’, the ‘development of a community strategy’, and the development of a ‘performance management framework’ and ‘the importance of partnership’. This is accompanied by an emphasis on the need to extend marketisation of services by ‘engagement with markets’ and ‘making markets’ where they do not currently exist. There are also many references with the need to undertake discussions with private and voluntary sectors and to establish partnership networks. The concepts of marketisation and networking are encapsulated in the four ‘c’s of Best Value; challenge, comparison, consult and competition. Challenge refers to the need to ask ‘why and how a service is provided’ and requires ‘a close engagement with the community ... the market. And a dialogue with the private and voluntary sectors’. Comparison refers to the need to compare performance against targets, other public sector bodies and those in the private and voluntary sectors, by extensive use of performance targets and indicators. Consult refers to the need to consult with a wide range of interests as to the way in which authorities fulfill their duties to secure best value, including citizens, and the private and voluntary sectors. Competition is self-evident and the guidance notes indicate that ‘fair and open competition will be expected to play an essential ... role’ and that there must be a ‘genuine plurality amongst service providers’. The notes further indicate that ‘benefits might
also be had from breaking up services’ and ‘where there is a developed supply market for a service, retaining work in-house will rarely be justified’. Moreover, ‘where the current market is demonstrably weak ... the authority should consider steps to create the conditions in which new suppliers might take root’ and provides detailed guidance on how to make markets. Finally, Best Value Performance Plans are now a statutory requirement and should include, inter alia, ‘a summary of the authority’s objectives’, a summary of current performance, a comparison with performance in previous years, a summary of the authority’s approach to efficiency improvement and the performance targets set for future years’. The Government has also introduced the publication of Best Value and Audit Commission Performance Indicators for all local authorities. These requirements for implementation of private sector practices are far beyond any previous attempts and the emphasis on markets and competition has only been marginally reduced.

The PFI initiative, and associated public/private partnerships and joint venture companies are self evidently concerned with new forms of governance and have been greatly extended by the Labour administration. The DETR publication on PFI states the benefits of these approaches are to promote private investment, improve value for money by risk transfer, allow transfer of trading assets to the private sector, facilitate joint ventures and remove unnecessary obstacles to partnerships.

The modernisation agenda has also swept through specific service reforms. A major initiative, ‘Modernising Social Services’ was launched in 1998. Two major elements of this initiative were ‘improving partnerships’ between health, housing, other services and social services and ‘improving delivery and efficiency’ through ‘performance management arrangements’. These arrangements, developed to complement Best Value, comprise an extremely comprehensive and highly structured Performance Assessment Framework (PAF). The PAF comprises five domains: national priorities and strategic objectives, cost and efficiency, effectiveness of service delivery and outcomes, quality and fair access.

In Transportation, reform was initiated with the ‘New Deal for Transport’ white paper in 1998. Emphasis again was given to ‘preparing the broad strategy, objectives and performance indicators for Local Transport Plans’, and to ‘developing partnerships, including the arrangements for joint working, participation and consultation’. Similarly in Housing the Green Paper of 2000 proposals include ‘encouraging all authorities to take a strategic view of needs across all housing, public and private sector, encourage authorities to work in partnership with local communities, ... landlords and other organisations’ and ‘new approaches to improve quality of social housing and housing management’ including ‘transfer of up to 200,000 homes each year from local authorities to registered social landlords’, ‘encouraging the creation of new arms-length companies to manage local authority owned housing’ and ‘ensuring the consistent and rigorous application of Best Value ...’.

These initiatives are evidently coherent and have all the characteristics of a state hegemonic project which conform to the expectations of post-Fordism as identified by Jessop (1995). There is a clear emphasis on hollowing out the (local) state by reducing government and extending governance through networks, partnerships and marketisation. There is also a clear emphasis on the statutory introduction of new organisational processes borrowed from the private sector. Although it is still too early to be sure that post-Fordism is a stable period of accumulation and regulation, much of the earlier concern that associated structures and practices may have been ‘the product of the imposition of a new Thatcherite state project (Hay, 1995), or that the post-
Fordist local state may be defeated with Thatcherism (Painter, 1991), is not warranted in the face of the evidence of the Labour hegemony with respect to local government.

To summarise, the last 25 years of local government reform appear to be resolving into a more stable period in which post-Fordist structures and practices are becoming well established and continue to be exhorted by the state. Moreover, local government’s role in the regulatory regime is much reduced compared to its central role under Fordism as evidenced by the continuing hollowing out of the local state. Indeed it may well be that it ceases to be a key component of the mode of regulation at all (Painter 1991).

3.3. Post-Fordism, new public sector reforms and accounting in local government

Whilst it is valuable to obtain a theoretical understanding of the development of accounting and financial management in its historical, economic and social context, the above analysis is also helpful in evaluating the current state of such practices. This will be attempted in two stages. First, there will be brief reviews of the accounting literature related to NPM in the public sector, the literature from political studies concerning NPM and networks in local government and the literature concerning corporate governance in local government. Second, the current state of accounting in local government will be assessed using the framework from these reviews applied to the emergent structures and practices evident from the regulation and governance theory analyses.

The recent public sector accounting literature establishes many changes in accounting practices instigated since the mid 1970’s. Humphrey, Miller and Scapens (1993) establish a link between neoliberalist ideology and the rise of ‘accountable management’ in the public sector. Accountable management is characterised by management accounting techniques ‘concerned with the setting of plans and objectives, specification of performance targets, calculation of costs, the production of budgets and the provision of information on resource usage for the purposes of local or central management decision making. Such techniques include efficiency scrutiny, value for money audits, performance indicators, resource management initiatives, computerised financial information systems, cash limits, delegated budgets and internal markets’. They also point out these techniques often fail in practice, a finding supported by Broadbent and Guthrie (1992) in their review of the research into the implementation of these techniques. Russell and Sherer (1990, 1991) also identify the common theme of accountable management associated with private sector solutions in their study of changes in central government management in the 1980’s. Hopwood (1984,1990) also argues that during the 1980’s in the UK public sector, accounting and accountability were replaced by technical or managerialist accountability in terms of a dominant financial calculative regime. McSweeney (1994) claims that accountable management has often meant accounting by management. Ezzamel and Willmott (1993) used markets and hierarchies (and clans) approach to evaluate NPM in the public sector. They argued that the reforms were intended to shift the mode of governance in the public sector away from hierarchy infused by a public service ethic towards markets regulated by strengthened bureaucratic control and that the reforms were being shaped and directed by accounting and financial controls that were increasingly market oriented and market driven. They concluded that this was likely to be detrimental to public services and exhorted a move towards a substantially democratic form of governance, which would remove the irrational consequences attributed to markets and hierarchies. They were however, also critical of the narrowness of the markets/hierarchies approach and exhorted the need to move
outside institutional economics, hopefully a theme picked up in this paper. Goddard (2000) began this process with an analysis of the hegemonic nature of NPM, associated with the neo-Liberal hegemony of the 1980’s and 1990’s.

At a more pragmatic level, the period from 1980 to 1997 also saw a renewed interest in regulation with such bodies as the Audit Commission taking on a broader regulative role alongside legislation concerning compulsory competitive tendering with prescriptive accounting reports and rates of return and the compulsory publication of performance indicator league tables. Compulsory and standardised financial reports were crucial to the newly privatised organisations but also to the decentralised direct service organisations, health trusts, etc. that the government established. Management accounting issues were concerned with establishing contract prices rather than future planning.

There had clearly been a fundamental change in the role and composition of accounting techniques in the public sector in the UK in the period since the 1970’s and this was complementary to NPM in general. Whilst the accounting research provides rich criticism of NPM it has yet to extend its period of analysis to include the emergence of new hierarchies and the more recent developments under ‘New Labour’.

This period is extensively researched in the political studies literature. Rhodes (1996) considers NPM to have four weaknesses with respect to the emerging governance structures; its intraorganisational focus, its obsession with objectives, its focus on results and the contradiction between competition and steering. He suggests a more appropriate governance structure would be intergovernmental management (IGM), which comprises three distinctive features; problem solving, intergovernmental games and networking (Wright, 1983). It requires trust, diplomacy, reciprocity and cooperation rather than hierarchical and market based approaches and requires ‘a distinctive managerial style based on facilitation, accommodation and bargaining’ (Rhodes, 1996). Rhodes (1996, 1999) expresses considerable concern about accountability in IGM governance as it is focused on substantive policy involving several institutions rather than being incorporated within one hierarchy or contract.

The evidence emerging from empirical research into contemporary local government is one of a complex and uneasy mixture of markets, hierarchies and heterarchies. The ESRC research programme concluded that ‘government fragments and networks vie with markets and bureaucracies as key service delivery mechanisms. The consequences of institutional differentiation ... include complexity and confusion, opaque accountability and a diminished capacity to steer’ and ‘the dominant impression is of the difficulties posed by fragmentation for coordination and the spread of opportunistic behaviour, perverse incentives and inefficient exchange’ (Rhodes, 1999, p.xxiii).

Stoker (1999) points out the need for scepticism about the extent of change in the light of the extensive rhetoric and points to evidence of the reforms having little or no effect in some areas and of implementation failure. However, he also outlines the unintended consequences of the reforms including functional disruption where a system need is neglected or threatened. The ESRC programme provides several examples of this including weakening of democratic accountability as a consequence of opting out initiatives (Pollitt et al., 1999), undermining of public accountability in PFI initiatives (Heald and Geaughan, 1999), and concern about the impact of governance systems (Lowndes, 1999). Another consequence is ‘goal displacement’ where performance measures become a goal in themselves rather than help to improve services. Examples were found in crime prevention (Benyon and Edwards, 1999) and in a PFI initiative (Heald and Geaughan, 1999). Other unintended costs included opportunistic behaviour, loss of
cooperation, demotivated and excluded stakeholders, and exaggerated and illusory claims of success. Stoker does conclude with the positive note that there is substantial evidence of the emergence of ‘community governance’, in which local government takes a wider role in maximising the well being of citizens rather than a narrow role of service provision.

The overall impression of the accounting and public policy research is that local government is changing from Fordist to post-Fordist structures and practices. However, the transition is not uniform and differences in the pace of reform are evident both spatially and between services. There is also evidence of uneven success of the reforms, with a large question mark over NPM, in particular. However, given the state’s commitment to a new regime, and its likely role in a new period of stable accumulation, it is unlikely that there will be any reversal or slackening of pace of the reforms. There also appears to be a hegemonic component of these reforms as the broader changes in society resulting from the emerging regime bring changes to the ideological framework which pervades local government as much as any other part of society. It is possible that the commitment to NPM in particular, is due more to its conformance to the new hegemony than to its effectiveness in economic terms.

This hegemonic aspect is even more evident in the changes that have taken place with respect to corporate governance in local government. The professional codes of practice (CIPFA, 1994,1995; HM Treasury, 1994; NFHA, 1995) that have emerged owe much to private sector concepts, particularly those developed by the Cadbury Committee, a point also noted by Rhodes (1996). Indeed the mere existence of the codes is explained more by the financial scandals in the private sector that gave rise to Cadbury, than concerns of corporate governance in the public sector per se. The principles of openness, integrity and accountability, incorporated in Cadbury are also used in CIPFA’s Code, albeit amended in detail. As such, the CIPFA Code has received criticism from Jones and Stewart (1994) because it takes too little regard of public, as opposed to Boardroom, accountability. Hodges, Wright and Keasey (1996) suggest that Cadbury and CIPFA are concerned mainly with conformance aspects of governance but performance aspects are equally important. Performance is concerned with ‘how the structure of governance motivates those in control … to meet performance objectives in an efficient and effective manner’. However, Hodges et al. (1996) do recognise the difficulties in developing such an integrative framework including the diversity and complexity of governance structures and objectives, the existence of overlaps and gaps in such structures, the importance of public accountability and stakeholders and the role of political choice. These problems are similar to those associated with NPM in general and will only worsen with the increasing diversity and complexity resulting from fragmentation of local government. It is clear that corporate governance needs reconsideration in a post-Fordist regime.

What then are the consequences for local governance accounting of the emerging governance structures, comprising a complex mixture of NPM and IGM? Accounting plays a key role in governance in terms of what information is provided and to whom it is provided. These are questions of accountability and the main issue emerging from the above studies is that accountability is a major concern and its focus is perhaps changing. There is an increased emphasis on public and democratic accountability emerging, which will entail more emphasis on encompassing multiple stakeholders and upon policy evaluation. Key stakeholders in the future will be the public and network members rather than local government providers. Accountability will be required with respect to policies rather than institutions and possibly the level of analysis of accounting information will need to also be policy based if it is to be meaningful. More flexible, ‘fragmented’, information systems designed to be accessed by
different users from different organisations need to be developed as exhorted by Hopper and Powell (1985). Similarly policy evaluation approaches designed to meet the needs of different stakeholders are required, perhaps along the lines suggested by Goddard and Powell (1994).

CIPFA has already begun the process of developing the techniques of accounting for heterarchy with its ‘accounting for partnerships’ research initiative as part of its development of Best Value accounting guidance. It is also drafting a ‘Best Value Accounting – Code of Practice’ to provide a consistent total cost accounting framework for best value authorities. CIPFA has also developed a ‘Statement of Principles for Best Value Accounting’, based on the responses to the consultation paper ‘A Modernised Framework for Local Authority Accounting – Accounting for Best Value’, published early in 2000. However, it is not just new technical approaches that will be required; the old codes of conduct with respect to governance also need to be critically reviewed to fulfill and extend the concepts of conformance and performance to incorporate political accountability. Finally, new approaches based on trust, diplomacy and reciprocity need to be developed and new skills will be necessary for local governance accountants including, game playing, bargaining, persuasion, management by agreement, political skills and problem solving through mutual adjustment.

4. Conclusion

Regulation theory has enabled an analysis of the development of accounting and financial management practices over the last 25 years to be undertaken within an historical, economic and social context. It is likely that a post-Fordist period of stable capital accumulation is emerging. One consequence of this period is the extension of private capital into areas, which were provided by the state under the Fordist regime. This extension has been possible because the new labour process relation and the introduction of technology have made such activities profitable. Associated with this period is a mode of regulation and hegemonic structures, which are also having a direct impact of local government and governance. The mode of regulation has brought with it a hollowing out of the state with fragmentation of government and the emergence of governance. It has also brought a new mode of competition with new heterarchic structures emerging alongside simpler hierarchal forms and markets. The state itself has been transformed into a Schumpeterian workfare state, which has adopted flexible, decentralised work processes and remodelled itself on private sector practices, as exemplified by NPM. The outcome for local government has been a complex mixture of structures, including hierarchies, markets and heterarchies and a complex mixture of management practices including NPM and IGM. Post-Fordism has also brought a new hegemonic ideology, which favours private sector structures and practices even in the face of their limited success in implementation. The mutually reinforcing accumulation regime, mode of regulation and hegemony are redolent of a period of stability, which is unlikely to change as long as its internal contradictions can be contained.

The main consequence for local government accounting is the need to respond to the changing nature of accountability and governance. Accountability is increasingly concerned with political and community aspects rather than merely organisational aspects and new flexible information systems and evaluation techniques will be required. Governance is increasingly concerned with heterarchic structures, which are organised around policies. Traditional codes of practice based on private sector boardroom practice are no longer relevant.
If a period of stability has been reached it may also be time for the public sector accounting research community to redirect its criticisms of the post-Fordist period reforms. The fact that reforms are ineffective at the organisational or even policy level are unlikely to result in any response. They must be seen in their regulatory and even hegemonic context. This is not to say that nothing can be done to halt the march of markets and private sector practices. A more fruitful way forward may be to influence future reforms and new consensuses and to ameliorate the current. This can be achieved by obtaining a better understanding of how such reforms are being implemented, identify strengths as well as weaknesses, identify best ways of coping with the reforms and seek to develop new approaches to accounting information systems and methods of analysis. Within a context of emerging heterarchic systems of democratic and community based accountability and governance, there are many positive opportunities for accounting.

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