Governance and the quasi-public organization:
a case study of social housing

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Abstract

The paper describes the results of a 3-year study of a social housing organization in England, tracing its transition from local authority-financed social agency into an ‘independent’ social business financed by lenders and following a merger its further transition into a complex business managing £200 million of assets.

The study is concerned with the accountability to and by a quasi-public sector Board and how that Board was (or was not) able to exercise effective governance. It asks: Who is accountable? To whom are they accountable? For what are they accountable?


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1. Introduction

Accounting, accountability and governance are inter-related. Accounting implies a set of rule-based techniques to present information to interested parties. Accountability implies responsibility to those interested parties. Governance requires such accountability through mechanisms of control and legitimation.

The research study described in this paper is a 3-year field study at Board level of the role of governance, accountability and accounting in the management of a social housing organization in England. Social housing increasingly exists in a quasi-public form, a result of the ‘privatization’ of council housing into a tightly regulated but predominantly privately funded sector that retains a social ethos to provide quality and choice for tenants and reduce the waiting list of homeless people. Governance mechanisms are through a Board of unpaid volunteers with the Housing Corporation as the sector regulator. While social housing has been studied from an urban studies and public policy perspective, it is an under-researched area in the accounting literature.

Greer and Hoggett (1997, p. 223) described what the Nolan Committee on Standards in Public Life called ‘local public spending bodies’ as operating at the public–private sector interface and called this a new kind of organization—the ‘small and medium public enterprise’—‘resulting from the introduction of radical forms of operational decentralization’. Hirst (2003) referred to these as ‘public interest companies’. In this paper, we use the term ‘quasi-public sector’, because we believe that social housing is more a public sector organization in private sector clothing than a decentralized, independent sector. This is because the initial funds, and much continuing funding is public funding, either in the form of grants for new social housing, or in the large proportion of social rents that are funded by social security housing benefits. Consequently (direct and indirect) public funding results in a high level of regulatory and inspection activity. However, this sector is also heavily involved in private finance markets which provides the bulk of funding as well as markets for property development.

The organization studied made a transition through a large scale voluntary transfer (LSVT) from local authority control to a privately-funded non-profit-distributing organization. It subsequently diversified, restructured and then merged with an organization of similar size. Following the merger, it underwent a crisis of confidence in the financial management of the organization.

The paper is concerned particularly with issues of how accounting is implicated in processes of accountability and governance. The study focuses on the role of the Board in accountability and asks three questions: Who is accountable? To whom are they accountable? For what are they accountable?

The paper builds on the contrast made by Roberts (1991, 1996, 2001) between a formal, hierarchical system of accountability based on a calculative accounting, with an informal, socializing form of accountability based on a sense-making narrative. The paper uses examples from the field study to elaborate on the accountability of the Board (compared with the roles of executive management, regulator and lenders), the limitations of a calculative accounting grounded in financial reporting and the inadequacy of socializing forms of accountability for sense-making through narrative. The paper identifies and explores the space between the calculative and the narrative that is vacant and where governance and
accountability are problematic. Reflecting Roberts’ conceptualization of broader societal accountability, this paper suggests that the hidden spaces between hierarchical and narrative accountabilities prevent those broader accountabilities from being voiced.

In the first section, an overview of the literature on governance and accountability is presented. The second section describes the context of social housing in the UK. In the third section the methodology is summarized. The fourth section describes the field study through three different time periods. In the fifth section we discuss the field study and build on the notion of calculative and narrative accounting (Roberts, 1991, 1996, 2001) to develop the notion of spaces between those accountings. In the final section we present the conclusions.

2. Governance and accountability

This paper is concerned particularly with accounting and processes of accountability and governance. Roberts (1996) contrasted accounting and accountability as a shift from a preoccupation with technique to a concern for social practices. Accountability is concerned with giving explanations through a “credible story of what happened, and a calculation and balancing of competing obligations, including moral ones” (Boland and Schultze, 1996, p. 62). Hoskin (1996, p. 265) described accountability as “more total and insistent . . . Accountability ranges more freely over time and space, focusing as much on future potential as on past accomplishment, connecting and consolidating performance reports to plans and forecasts”.

The Cadbury Code (1992) defined corporate governance as “the system by which organizations are directed and controlled”. A report by the International Federation of Accountants (2001, p. 1) described it as “concerned with structures and processes for decision-making, accountability, control and behavior at the top of organizations”. Although Roberts was concerned with the private sector, the application of private sector governance processes is very deliberate in the quasi-public sector with the adoption of Cadbury processes mandatory under the Housing Corporation’s Regulatory Code and Guidance. In this sense, a quasi-public Board exists in a similar situation to that of privatized utilities that have both shareholders and a regulator. In one sense, tenants in social housing occupy a position loosely analogous to that of shareholders. The four-fold typology developed by Roberts (2001) provides the opportunity to locate diverse forms of quasi-public governance models.

We can consider accounting as a technique, accountability as a state of mind, and governance as a method of control and a legitimating device that are all inter-related. This is particularly so in the UK public sector since the Thatcher Government’s introduction of the Financial Management Initiative in 1982 which led to the privatization or commercialization of many public sector activities, the adoption of ‘management by accounting’ (McSweeney, 1996) and a shift “towards markets regulated by strengthened bureaucratic reform” (Ezzamel and Willmott, 1993, p. 126).

Notions of accountability—who is accountable, to whom, and for what?—are embedded in all accountings (which are limited and partial technologies) and in governance processes (which are political and may be more apparent than real). Accountability is embedded in the formal method of rendering Accounts to others. Accounting permits both an ex ante justifi-
cation for actions intended, and an ex post explanation for actions undertaken, and enables an examination by interested parties of those actions. Importantly for the purposes of this paper, Roberts (1991, 1996, 2001) contrasted a formal, hierarchical system of accountability based on a calculative accounting, with an informal, socializing form of accountability based on a sense-making narrative.

Roberts (1991) developed his idea of a hierarchical form of accountability in which accounting plays a central role, which serves to produce and reproduce an individualized sense of self. Roberts contrasted this with his socializing form of accountability which emphasizes the interdependence of self and others: "Talk in organizations involves the active and open-ended process of making sense of what is going on... the process is a social one... Through such talk not only is the official version of organizational reality penetrated and reinterpreted, but also it is the basis for a diffuse set of loyalties and ties" (Roberts, 1991, p. 362).

This sense-making device was a development from the ‘conference’ in the field study described by Roberts (1990, p. 124) which was “an alternative form of accountability which potentially resolves the tension between accounting and strategy” by building a shared understanding and a strong sense of reciprocal rights and obligations, and acting as “a device which provides a series of contexts in which meanings can be shared and created” (p. 118). In Roberts’ case study, the conference, to some extent at least, resolved the tension between a strategic concern with long-term markets and the organization’s preoccupation with short-term financial returns.

In its hierarchical form of accountability, Roberts emphasises the visibility provided by accounting as “the mirror through which others must view, judge and compare individual and group performance” (p. 363). Roberts’ (1991) emphasis on management accountability in which accounting imposes a definition of the situation wherein subordinates must explain their actions in terms of this imposed understanding can be contrasted with board-level governance. Roberts develops this in a subsequent paper (Roberts, 2001) where the level of analysis shifts to boards.

Roberts (2001) describes individualizing effects as associated with the operation of market mechanisms (e.g. the market for corporate control and the managerial labor market) and formal hierarchical accountability. Socializing forms of accountability are associated with face-to-face accountability between people of relatively equal power, which allows them to test and challenge their own and others’ assumptions through dialogue. In Anglo-American organizations, Roberts (2001) asserts that accounting information is arguably the most authoritative and powerful ‘field of visibility’. He focuses on “the potential for socializing forms of accountability within board relationships... [in which] responsibility is jointly and severally shared by executive and non-executive directors” (p. 1555). Roberts identifies the individual who has reached the top of the organization and who “falls prey to the seductions of power and continues to struggle for imagined autonomy” (p. 1556) while non-executives can exert influence on the board agenda and process through informal contacts. Roberts concludes that “the play of individualizing and socializing forces within the board is empirically variable and depends upon the way that external pressures are mediated by board processes” (p. 1562). Roberts acknowledges the interdependence between the calculative and the narrative, emphasising that the separation between the two is “a form of reciprocal denial of what
is an unavoidable interdependence of action both within the organization and between the organization and the communities in which it operates” (Roberts, 1991, p. 367). He also emphasises the different effects of these different processes of accountability and the need to think in a way that “balances the pursuit of purely financial objectives with a wider set of perceived corporate responsibilities” and “for effective processes of corporate accountability” (Roberts, 2001, p. 1567).

However, this paper is more concerned with the hidden spaces that may exist between the formal, hierarchical accounting and the informal, socializing narrative. These spaces can hide organizational accountabilities to the wider community and disguise the effectiveness of governance. These issues are particularly important in the quasi-public sector.

3. The context of social housing

Housing Associations (HAs) “exist to provide housing for people who cannot afford other private housing” (National Federation of Housing Associations, 1996, p. viii). HAs are run as businesses although they are non-profit-distributing, with any surplus being reinvested to maintain existing homes and help finance new ones. A total of £25 Bn of public money has been invested in HAs that manage 1.75 million homes since they were established in 1964. The Global Accounts of all 1857 housing associations (Housing Corporation, 2003) revealed that housing assets were £54.6 Bn, with long-term debt of 37% of that value.

Historically, social housing had been under local authority control until the 1980s with many estates requiring major refurbishment, a backlog estimated at £20 Bn nationally. The drive towards privatization and commercialization of the public sector following the Thatcher Government’s Financial Management Initiative led to the transfer of much housing stock from local authority control to quasi-public organizations using private finance. This was called the Large Scale Voluntary Transfer (LSVT). There are only about 120 LSVTs, although they are the largest housing providers in the UK. Most HAs are small however the largest 7%, with 2500 or more homes—own 78% of the sector’s homes (Housing Corporation, 2002).

The regulator is the Housing Corporation, a non-departmental public body. The Housing Act of 1974 (subsequently amended in 1985 and 1996) gave the Housing Corporation regulatory and funding powers over HAs. This is carried out through a regime of funding the ‘social housing grant’ for new housing, performance measurement and inspection. The Housing and Planning Act 1986 set the framework for the large scale voluntary transfers (LSVT) of housing stock from local authorities to housing associations and the Housing Act of 1988 introduced the era of private finance.

The private funding market developed because it had security for lenders both through the value of the assets and the freedom given to associations to increase rents in the face of rising costs. The transfer value was fully funded by the private sector, resulting in a “100 percent debt-financed management buyout” (Whitehead, 1999, p. 662). HAs assets were unencumbered by past public borrowing and their attractiveness to lenders was because the social housing grant provided by government to build new social housing properties reduced the borrowing to below realisable asset value. Lenders also obtained the security of the rental
stream, reinforced by strict borrowing covenants on HAs. The system of bidding for grant funds encouraged HAs to compete against each other and to be more efficient (Housing Corporation, 2000a). However, valuations were sensitive to the assumptions made about future rent, management and maintenance spending growth, the rate of right-to-buy sales (see below) and tenant turnover (Gardiner and Hills, 1992).

This new financial regime of private funding, with loans outside the public sector borrowing requirement “brought risks as well as opportunities, and has been the key factor in driving up housing association rents well above the rate of inflation” (National Federation of Housing Associations, 1996, p. ix). As rents increased faster than inflation, housing benefit payments (to those who cannot afford to pay rents) also increased sharply. This in turn led to government efforts to reduce those benefits.

As a result, the Housing Corporation issued guidelines on the restructuring of social housing rents following a Housing Green Paper (Housing Corporation, 2000b). HAs were required to converge to target rent levels over a 10-year period and from 2002, rent increases could be no more than the retail price index (RPI; a standard measure of inflation) plus 0.5%. While the Housing Corporation recognized that LSVTs had commitments to lenders which had to be honored as a result of borrowing covenants, any gains generated through implementing business plans would need to be directed at rent restructuring, thereby moving the actual rent to the target level over the 10-year implementation period.

It has been suggested that rent controls could jeopardize the financial viability of some associations (Mullins et al., 2001, p. 613). By contrast, Walker and Jeanes (2002) suggested that regulatory problems can create the capacity for innovation through private sector renting, merger activity and the introduction of new management techniques. For all HAs, turnover from diversified activities in 2002 was almost 15% of rental income of £5.5 Bn (Housing Corporation, 2003).

In the study described in this paper, the organization first diversified and restructured and subsequently merged in order to balance the competing demands of regulators, lenders and tenants.

4. Methodology

The focus of data collection in ethnographic studies is for researchers to penetrate an organization and to observe and record their own perceptions, as well as those of other participants. The field study commenced in early 2000 and involved acting as a participant-observer at numerous meetings that took place between Board members and senior management during the following 3 years. The meetings attended included both housing association subsidiary and parent Board meetings and participation in working parties that resulted from a decision first to diversify and restructure, and then to merge with another housing association. The meetings included formal board meetings, Audit Committee meetings, informal meetings with senior managers and ‘Away Day’ events to discuss strategy. The study is therefore ethnographic at the level of analysis of the Board and its interface with senior management. It emphasises the role of accounting and accountability in processes of governance before, during and after diversification, restructuring and a merger, rather than the operational aspects of organizational functioning.
Industry publications and those of the Housing Corporation provided a broad perspective on the progress of reform of social housing. These publications and attendance at housing conferences provided an appreciation that the problems faced by the organization were common with other LSVT HA. However, meetings, supplemented by extensive Board papers, formed the most significant element of data collection in the study. Little attention is given in the research literature to the value of meetings as a particular form of participant-observation. Formal organizational meetings provide a valuable source of data that is less subjectively-influenced than one-to-one interviews. Meetings allow the interactions between various organizational actors to be observed and recorded. These meetings have their own agenda and are therefore not focused on the researcher’s agenda. The matters of importance to the organization therefore surface more readily. However, issues discussed are rarely adequately represented by the minutes of board meetings.

The researcher was an independent (i.e. neither tenant or local authority appointee) Board member, albeit an unpaid, voluntary one, but both the Board and the Chief Executive were aware of the research interest, the researcher having been explicit that the ‘payback’ for acting as an unpaid Board member could be justified by the access to the organization for research purposes. In the role of Board member, no effort was made to refrain from active involvement in Board discussions and decisions and the researcher deliberately influenced or at least attempted to influence Board level decisions on some occasions, as a result of his professional judgement. These occasions are identified in the field study. However, this role did not extend to action research as there was no goal to change the organization through the study.

During each Board meeting, the researcher made notes of the discussion that took place, capturing relevant quotes from participants and subsequently compared these notes to the Minutes of those meetings. None of the meetings was tape recorded as they were not public, open meetings. To elaborate and clarify issues, many one-to-one discussions also took place with the Finance Director, Chief Executive, Chairman and other Board members. There were also meetings with internal and external auditors and with a number of legal advisers and consultants who provided advice to the Board, both before and after the merger. Again, notes were taken during these meetings.

5. Field study

The field study can be divided into three distinct phases:

- the large-scale voluntary transfer from local authority control that took place in 1994, until 2000;
- the process of diversification and restructuring that took place in 2000–2001 and the merger that took place during 2001–2002;
- the post-merger period and a mini-crisis of confidence in the financial management of the merged group in 2002.

These periods are described below, but in each period a single Board meeting is used as the focal point to draw out representative issues.
5.1. 1994–2000: from council housing to private sector housing association

The Housing Association studied (hereafter 'District HA') was formed in 1994 following the large scale voluntary transfer (LSVT) of housing stock from the local authority. Under the LSVT, tenants were guaranteed a maximum rent increase of RPI +1% per annum for 5 years and transferring tenants retained their 'right to buy' their council homes at a formula-determined price. The Chief Executive described this as "a change from legislative to contractual rights". Over 50% of District HA's tenants were entitled to housing benefit payments that were paid by the local authority. The total funding raised by District HA under the LSVT was £40 million which financed the transfer of 2500 properties, major repairs and refurbishments and some additional housing development. Finance was provided over 30 years by a consortium of lenders secured by the valuation of the housing stock. The capital receipts that flowed to the local authority from the LSVT were reinvested to help finance over 800 new homes between 1994 and 2002. District HA became a not-for-profit, but non-charitable "social business" in which both accounting and the role of the Board developed. Each is considered in turn.

The role of accounting changed substantially during this period. From its public sector orientation as a local authority department, accounting was now required to provide relevant information for the management of a non-profit-distributing business operation with a long time horizon that was almost completely debt funded. Because of the length of the loan period, lenders required a 30-year business plan showing the projected rental income stream and expenditure to ensure that cash flows would cover the principal and interest repayments.

Although the organization budgeted for a deficit each year as a result of interest, maintenance and administration costs exceeding the rental income, the borrowing covenants required District HA to generate a surplus by about Year 8. However, continual new property developments and additional borrowing to finance those developments pushed out the break-even year to a point that was continually 8 years in the future. Over the years since the LSVT took place, borrowings were below plan because, in the Finance Director's words, "repair expenditure was delayed pending a new [stock condition] survey and interest rates were lower than plan", resulting in the actual deficit being lower than budget.

The Stock Condition Survey was an important document that was used for property valuation purposes and for maintenance planning in the Business Plan and annual budget. However, despite a borrowing covenant that required 5-yearly updates, it had not been up-to-date throughout most of the period of the field study and therefore was not an adequate tool to enable maintenance expenditure to be monitored at Board level.

Tenants who transferred from local authority control retained a 'right to buy' their council owned properties on advantageous terms. Although in practice this right was limited by the ability of many social tenants to obtain mortgages, many lenders were prepared to provide finance for this purpose. The Finance Director commented that "It is a lender's nightmare . . . if [they] all took up the option". Right to Buys reduce the housing stock and if excessive can impact on borrowing covenants.

The Board of the Housing Association comprised tenant members, local authority members and independent (i.e. neither tenant or local authority appointee) members, with independent members forming the majority. Importantly, Housing Corporation rules prevented
any payment to non-executive Board members who undertake their roles on a voluntary basis. During this period, District HA’s Board comprised several tenant members, two representatives of the local authority, and independent members from a variety of backgrounds, although most were affiliated in some way with the housing industry. A minority of Board members had any familiarity with private sector governance processes, but training of Board members included some exposure to the basic principles. Although executive management were entitled to be represented on the Board, in the case of District (and throughout the field study), no executive director held a position on the Board at any time, although the Chief Executive and Finance Director attended all Board meetings. This tended to reinforce the pre-LSVT position, when housing was a department of the local authority, with a clear separation between ‘members’ and ‘officers’.

Although several members had a sound understanding of finance, including a member from a banking background, the researcher was one of only two non-executive board members with a professional accounting qualification or experience of working in a financial management role. Perhaps as a result, the Board adopted a strong social ethos and tended to rely heavily on the Finance Director and the reports that were presented by management, frequently supported by reports from external consultants.

The Chairman and Chief Executive of District HA had both held their positions since the LSVT had taken place. The Chairman had confidence in the Chief Executive, to such an extent that the Chief Executive dominated Board meetings and difficult questions were rarely aired. However, in the absence of the Chairman, the deputy Chair (a tenant member) presided over a Board meeting in September 2000. During the meeting there was tension between senior management and tenant members over the level of staffing especially in administrative and clerical functions. Substantive discussion took place over the size of the write-offs of rent arrears from former tenants and voids (the time between tenancies during which repairs are carried out) which members believed were high compared with other HA’s. Management implied that comparative figures for other HA’s were not available.

Discussion also took place about settlement offers made to aggrieved tenants and staff to avoid press criticism, irrespective of whether those claims were justified. One board member referred to both staffing and settlements as being a case of ‘over-insuring’. The tenant view in particular was that “we will end up paying for it in the long term”, reflecting how any cost increases were passed on to tenants through rent increases due to the lending covenants that required a break-even by Year 8 of the Business Plan. Further, the presentation of a report from the Disability Working Group led to a discussion about decisions being taken by management without the Board being informed. There were also criticisms that management reports were “full of management jargon”.

Despite the inference from management that figures were either not available or were not comparable, the pre-merger due diligence report in July 2001 for District Group identified several items that had been discussed at Board meetings over the previous 12 months, particularly at the September 2000 Board meeting. These included

Arrears [and] rent losses from voids and bad debts are higher than national LSVT averages.

The Associations’ costs . . . are 7% higher than the average of the sample used.
Costs became a matter of concern for the merged Board for the first time at a meeting in March 2003 when the Board minutes reflected that members “expressed concern at the increase in management and operational costs”, did not accept the Budget and asked senior management to “undertake a thorough review of the budget to identify where savings could be achieved”.

5.2. 2000–2002: diversification and merger

Faced with competition for social housing grant to fund new developments, District HA saw the opportunity to diversify into market rental properties and in-home care of the elderly in order to generate income for the core business of social housing. Although District HA operated a residential care home, sheltered housing and provided “care in the community” to people in their own homes, District HA decided to establish a group structure. Separate subsidiaries were created for the provision of care services (a charity) and market rental properties (the commercial arm), following professional advice that such a structure would lead to corporations tax and VAT savings. The new structure, the management claimed, would also provide a “stronger business identity to different activities”. A Group board (hereafter ‘District Group’) was established in September 2000 and the group structure became effective in April 2001. The structure is shown in Fig. 1.

Even before the Group structure was formally implemented, the Green Paper (Housing Corporation, 2000b: see earlier in this paper) heralding rent restructuring was released. This resulted in considerable discussion at a District Group Board in late 2000 that emphasized the difficulty, if not impossibility of meeting the rent levels imposed by government while satisfying borrowing covenants. District had expected to increase rent levels after the 5-year guarantee period following transfer from local authority control had expired and this had been built into its business plan and accepted by lenders. As District HA was a younger LSVT, it had a higher proportion of debt and so rent restructuring had a more significant impact than for many longer established LSVTs. After a failed protestation to the responsible Minister, the Chair referred to this as a “crossroads of viability” for District Group. A decision was made that the Group would seek a merger partner.

In April 2001, District Group made an in-principle decision—subject to a detailed Business Case—to form a new group through a merger to take effect from March 2002. The Board of the partner housing group (hereafter Rural Group) made a simultaneous in-principle decision to merge. Rural HA had itself been formed from an LSVT in 1995. It had almost

![Fig. 1. Group organizational structure.](image-url)
Table 1
Size of merging housing association groups in 2002

<table>
<thead>
<tr>
<th></th>
<th>District group</th>
<th>Rural group</th>
<th>Merged group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (£ million)</td>
<td>8.4</td>
<td>14</td>
<td>22.4</td>
</tr>
<tr>
<td>Operating surplus (£ million)</td>
<td>0.6</td>
<td>3.6</td>
<td>4.2</td>
</tr>
<tr>
<td>Deficit after interest (£ million)</td>
<td>2.5</td>
<td>1.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Value of housing stock (£ million)</td>
<td>74.0</td>
<td>115.0</td>
<td>189.0</td>
</tr>
<tr>
<td>Debt (£ million)</td>
<td>38.4</td>
<td>67.5</td>
<td>105.9</td>
</tr>
<tr>
<td>Social housing properties</td>
<td>2800</td>
<td>5000</td>
<td>7800</td>
</tr>
<tr>
<td>Employees</td>
<td>137</td>
<td>219</td>
<td>356</td>
</tr>
</tbody>
</table>

twice the number of properties as District HA and had formed a group structure earlier than District. The main difference in the structures was that while District Group controlled a market rental subsidiary and a care charity, Rural Group did not, but had its own in-house maintenance subsidiary. The basis of merger was to be an ‘equal partnership’ despite the size differences. The new structure would be a single parent (hereafter ‘District & Rural’ Group) with the retention of each of the existing subsidiaries (two housing associations, a market rental company, a care charity and a property maintenance arm).

The business benefits of the merger were defined as:

- financially and organizationally stronger than the two Groups remaining independent
- ... merging will be a positive factor in helping each [HA] achieve the target rents regime recently imposed by the Government’s rent restructuring policy. They will otherwise fail by a considerable margin.

A comparison of the size of the two groups is shown in Table 1.

At a special Joint meeting of all District Group Boards in August 2001, a feasibility report on the merger was presented by the Steering Group, the District Group Chair and Chief Executive arguing that “the case for merging has been satisfactorily proven” and recommended that the parent Board sign a framework agreement which effectively ‘locked-in’ both parties to the merger. The same proposal was made to the Rural Boards at a simultaneous meeting.

Management emphasized the need for speed in signing the agreement to fit in with Housing Corporation meeting schedules in order to have the merger ratified by the regulator and still meet the March 2002 merger timeframe. The Chief Executive commented:

The constraint is the Housing Corporation requiring deadlines for its Registration Committee . . . or we wait a further year.

At this point, while supporting the merger in principle, the researcher adopted a position that was at odds with the other Board members. The researcher’s opposition was that a detailed Business Plan had not been completed and in its absence there was inadequate financial justification that the merger savings could be achieved. In a document of some 40 pages, two were devoted to cost savings, identified as:

- staff savings of at least £500,000 on current budgets.
The merger proposal did not demonstrate how any improvement in the ability to meet rent restructuring requirements could be achieved, or the impact a merger would have on the borrowing covenants.

The Chair’s response was revealing:

We have taken advice . . . experience shows . . . it is up to the Shadow Board to look at things in much greater detail.

While this prompted considerable debate, the Minutes of the meeting did not reflect the discussion that took place, which in any event led to the merger agreements being signed. The same decision was made by the Rural Group Board simultaneously.

During the period from the decision to merge in August 2001 and the actual merger in March 2002, a 'Shadow' Board comprising equal members of both District & Rural Groups was formed in the lead-up to the merger. The Chair of Rural Group became the Chair of the merged Group. The Chief Executive of Rural Group announced his intention to retire which helped to achieve merger savings and effectively paved the way for the Chief Executive of District Group to become the Chief Executive-designate of the merged District & Rural Group.

In meetings of the Shadow Board, it was evident that Rural Group had a more commercial approach than the District Group, in part due to its composition, despite its similar constitution, by more commercially aware business people, including several accountants. This Group had greater experience of corporate governance issues than the District Group. In particular, the Rural Chair was a dominant figure in the organization, the opposite situation of that in the District Group. This wider knowledge and experience base in the merged Board and a stronger Chair led to more informed debates at Board meetings on the accountability of the Board and meetings were no longer dominated by the Chief Executive.

Reports presented to the Shadow Board revealed that the costs of the merger were drastically under-estimated as professional costs amounted to £120,000 and new computer systems required an investment of £180,000. As a result of continual property development and regulatory requirements (e.g. the introduction of Best Value) which drive staff costs, any staff savings from the merger that might be demonstrated were being eroded by natural growth. Consequently, any post-merger review of the actual savings achieved was problematic.

On several occasions during late 2002 and early 2003, members of the merged Board expressed concern that merger savings may not have been achieved, and had not been presented to the Board. Local authority representatives on the Board had also been called before a committee of the local authority to justify the benefits to tenants of the merger. At a meeting in June 2003 papers were presented identifying the impact of the merger. Complications about whether the identified savings should be based on the Income and Expenditure account or cash flow were exacerbated by whether they should or should not include a large but unplanned saving on refinancing (including how the large 'breakage' costs should be considered) and how the cost of new computer systems should be treated, neither of which had been included in the original Business Case. Following a discussion about whether the view taken as to merger savings should be over the short-term or long-term, the Minutes showed that members “expressed their disappointment that the merger
savings, as originally estimated, had not been achieved...[and] the commitment made to tenants at the time of the merger had not been achieved”.

While tenant members supported the merger, one representative view expressed at a Board meeting following the merger was that:

Tenants don’t see any benefits from the merger or growth...the argument that ‘your rent would have been higher if we hadn’t merged’ is difficult to sell.

Whether or not there was any benefit to tenants has been virtually impossible to demonstrate. Rents could no longer be increased to cover cost escalation as the rent restructuring regime had capped rent increases.

5.3. 2002–2003: the post-merger period and a crisis of confidence

As the position of Finance Director in Rural Group was vacant during the period leading up to the merger, the first merger saving was to be the dual role of District Group’s Finance Director as Finance Director of Rural Group during the transition period. Throughout this period, the Finance Director provided assurances that matters of financial management were all in hand, although the department was experiencing abnormal staff turnover. In February 2002, the Finance Director reported to the Shadow District & Rural Board that of eight senior staff in the merged accounting department, six had left and the remaining two had given notice. This he explained, was a result partly of the long hours that had to be worked to accommodate the merger and the employment market that had led to early promotions and large salary increases for staff experienced in housing association accounting. The Board supported whatever costs were necessary to obtain additional staffing and increase salaries to secure replacement staff to ensure that the accounting function was maintained during the transition period.

At a Board meeting in June 2002, the merged District & Rural Board was presented with a list of adjustments to previously tabled quarterly management accounts, some of which were substantial. The Finance Director reported that the scale of staff turnover and sickness in the Finance Department had increased rather than reduced and a combination of new and temporary staff, with inadequate housing sector experience, had contributed to the errors. These errors had not previously been identified as a result of a backlog of reconciliation activity that would have highlighted some of those errors.

The Board subsequently met without management being present (in District Group’s case for the first time during the period of the field study) and expressed its concern over “the robustness of the financial information” that had been presented to the Board. The Board resolved to ask the auditors to undertake a special investigation, over and above the normal year-end audit, in order to provide assurances about the Accounts. The management team was also asked to present a report on how they would meet a 3-month timescale for rectifying the problems in the Finance department.

The auditors subsequently reported that there was no evidence of any deliberate misleading of the Board but that the issues identified in their management letter, notably high staff turnover, lack of training of new staff and overdue reconciliations were the main contributors to the errors. These problems were, however continuing, as sickness among the remaining experienced staff contributed to the delayed audit and completion of the accounts.
and the need to reschedule annual general meetings. The auditors also identified the lack of satisfaction among the management team in relation to late accounts for management decision making, the hurried way in which the budget had been put together and late payment of suppliers. Questions also arose over the reliability of the business plan.

The concerns expressed by the auditors reflected what were largely process issues and weaknesses in the leadership of the Finance department. The Finance Director had taken on detailed accounting tasks and the result had been a lack of overall supervision of what other staff members were doing, or not doing. However, the Board also took the view that the Finance Director had received inadequate support and supervision from the two Chief Executives, neither of whom had any financial expertise.

The Finance Director had been with District HA since the LSVT and had built up strong personal relationships with Board members. At an informal meeting of the District HA Board and District’s representatives on the District & Rural Board in September 2002, two Board members summarized private meetings that had been held with the Finance Director. The Finance Director had been offered support to remain, as many District members wanted him to retain his position. The Chief Executive had proposed the Finance Director “move sideways” to take on a role in relation to various projects associated with the merger. Subsequent discussions revealed that Rural Board members did not share the same view and there was little support for retaining the Finance Director. The Finance Director resigned, for personal reasons, while commenting that he felt he did not have the support of the Board, who, he stated, should have trusted him more. A revealing comment made by the Finance Director was that “this [the special investigation] would not have happened if we were still the old [District Group] Board”. The options were formally presented to a District & Rural Board meeting later that month, and a redundancy package for the Finance Director was agreed.

Following the appointment of an interim Finance Director and additional work by both the auditors and the Audit Committee of the Board, it took 6 months before either management or the Board had their confidence restored in the financial reports. Throughout, the Housing Corporation were kept informed of these developments, which resulted in delayed returns being submitted to the regulator. However, the regulator was satisfied with the way the Board was handling the situation.

The Board’s post-merger strategy considerations were driven by a view of its environment and the future of social housing as one where there was likely to be fewer HAs and a consolidation of the supply chain, particularly among financiers and grant-providers. In the region in which District & Rural Group operated, there was the additional difficulty of a shortage of land for housing development which pushed up land prices, despite a waiting list of 3000 people for social housing. The District & Rural Group wanted to be “one of the chosen few survivors”.

During 2002–2003, the District & Rural Board identified its prime focus as to grow by looking for partners. In the Chair’s words, this was “the major value that can be added by the [parent] Board” while at the same time being better able to demonstrate the benefits of a merger to potential partners.

The Group also recognized that its HA subsidiaries would soon face a liability for Corporations Tax. The Housing Corporation had itself identified in its Annual Viability Review the need for
appropriate tax planning, which may include adopting charitable status . . . [to] assist in achieving rent restructuring requirements.

At the time of writing, District & Rural was actively looking for a suitable merger partner and one of the HA subsidiaries was in the process of adopting charitable rules to avoid liability for Corporations Tax.

6. Discussion

Rhodes (1994, p. 149) anticipated that public sector reforms would lead to the “erosion of accountability (as institutional complexity obscures who is accountable to whom for what)”. The shift in accountability for HAs that have moved from local authority control prompts some questions about this sector: Who is accountable? To whom are they accountable? For what are they accountable?

First, who is accountable? The increasing concern with corporate governance (Cadbury Code, 1992) implies a dual accountability. Both the concepts of ‘accountable management’ (Humphrey et al., 1993) and ‘management by accounting’ (McSweeney, 1996) focus on the accountability of management. However, accountability under corporate governance refers to the role of the Board which becomes more prominent in its dual role as both an accountable entity (to stakeholders) and as an entity that holds management accountable. It is the role of the Board that is the focus of this study.

Second, to whom are they accountable? In the absence of any equity shareholders, three stakeholders can be identified: government, through the Housing Corporation as regulator, whose interest is in relation to protection of the social housing grant paid to HAs, ensuring efficiency given that the bulk of income paid to HAs is funded by housing benefits payments, and ensuring government policy is implemented. The second major stakeholder is the lenders who provide the majority of debt finance to HAs and who impose borrowing covenants to protect that investment. The third stakeholder is the tenants, the customers for whom social housing exists. It is this third group whose minimum rights are supposedly safeguarded by the activities of the regulator but whose broader rights are a consequence of the particular ethos of social housing that has been largely retained by the subsidiary HA boards since the transfers from local authority control. Largely unrecognized however, are the broader public whose taxes pay for the delivery of social housing and its funding through housing grant and housing benefit.

Third, for what are they accountable? Management and the Board are both accountable (in the field study described in this paper) for the management of almost £200 million of property assets; and to provide housing for as many social tenants as possible at an affordable rental. They are to an unequal extent accountable for public money (via the regulator) and private investment (via the lending institution). They are accountable for the management and maintenance of properties, and for providing homes to a decent standard, with a reasonable choice and at a fair price to their tenants.

Accounting provides a partial and limited representation of that for which management and the Board is accountable. Accounting is to a large extent a ‘foreign language’ for many non-executive Board members and the lack of accounting knowledge and understanding
can be a serious inhibitor of good governance. An understanding of accounting is clearly important, but the assumptions and limitations of historical accounting reports need to be recognized. These limitations were introduced in relation to the first period in the field study.

The logic of the Financial Management Initiative was based on a presumption of “the capability of accounting calculations to identify the absolute truth” (McSweeney, 1996, p. 217). The financial position of HAs is distorted by fluctuating interest rates that can rise as well as fall but can give a more favorable impression of management and Board performance during periods of low interest rates than may be warranted, exemplified during the period of the field study. The financial position of a HA can also lead to the deferral of necessary maintenance expenditure. The Stock Condition Survey thus becomes an important element of accountability as it should drive investment decision making in the housing stock. However, if the survey is out of date, this limits its usefulness as a tool of accountability.

Similarly, ‘Right to Buys’ which increased in number during the field study as a result of rising property prices generally, caused concern for the Board and management. Their legal uncertainty prevents them being classified as contingent liabilities and so the financial statements do not reflect any more than the historic impact of right to buy sales in the previous year. Right to Buys force HAs to undertake continual development to maintain an adequate housing stock, both for tenants and to ensure adequate security for lenders.

Accounting reports are, in summary, silent on some issues. The first period of the field study identified the effect of interest rate volatility on reported results, deferred maintenance expenditure and the importance of stock condition and the non-reporting of right to buys. In the second period of the field study, the imposition of rent restructuring imposed a financial regime that had not been—and could not be—planned when the HA transferred from local authority control. The potential financial impact of rent restructuring threatened the financial viability of the HA as rental income limitations came into conflict with the need to achieve a breakeven position to satisfy borrowing covenants. Income from rents had been the ‘missing figure’ in this reconstituted accounting as cost increases had previously been covered by rent increases.

Each of these treatments was consistent with the Accounting Requirements General Determination and Statement of Recommended Practice (SORP) for the sector. However, applying Roberts’ dichotomy, calculative accounting did not present a full picture of organizational performance and this leads to a reliance on sense-making narratives.

Many narratives were effective as sense-making devices. In the second period of the field study, the adoption of a group structure and the diversification into market rented properties was driven largely by the need to avoid Corporations Tax liability and to retain sufficient funds for continued development of the housing stock. The merger with a similar-sized HA was similarly driven by the perceived impact of rent restructuring and the impact this was likely to have on meeting borrowing covenants. Post-merger, the search for a new merger partner and the adoption of charitable rules similarly is intended to take pressure off costs and rental income by using Corporations Tax savings to bridge the gap between the expectations of regulator and lenders.

However, the importance of narratives for sense-making can also lead, as it did in the third period of the field study, to an over-reliance on either a handful of Board members perceived as competent in these matters or, perhaps more crucially, a Board can become overly dependent on the competence and integrity of the Chief Executive and Finance
Director. The crisis of confidence caused by the disclosure of accounting errors which led to the resignation of the Finance Director reflected the importance of Board confidence in the management team that had been taken-for-granted before that time. This is a limitation of the socializing form of accountability as it is predicated on both competence and integrity. The field study identifies a number of issues that were neither part of the formal, hierarchical calculative accounting or the informal, socializing narrative. The three board meetings described in the previous section reveal the ‘spaces’ between the hierarchical and the socializing forms of accountability. The Board meeting in September 2000 highlighted the space between the calculative accounting (performance measures such as headcount, rent arrears, voids, settlement of claims) and the socializing form of accountability based on a sense-making narrative (benchmark data, management decisions outside the Board, and jargon in management reports). These issues emerged largely because of the absence of the Chair and the persistence of tenant members at one meeting. Management jargon and unreported decisions ‘hid’ various issues from some Board members. Benchmarking of performance was in the spaces, and made it difficult to hold management accountable for performance, when comparative performance levels were unknown. Similarly, when staffing increases took place, within budget, the new staffing level became the base for the following year’s budget, resulting in an automatic cost escalation that was not questioned until the 2003–2004 budget round, in December 2002. Headcount remains an unreported figure.

The need for internal cost savings were to a large extent hidden by the almost continual restructuring that took place during the field study. In the first period, cost savings were hidden by rent increases. Once this ability was removed in the second period by rent restructuring, the need for cost savings was hidden by the adoption of a group structure and the merger. In the third period it was hidden by the search for a new merger partner and the adoption of charitable rules. The narrative here was the need to satisfy the regulator and borrowing covenants, not about the need to control cost escalation. Cost savings were not part of any narrative between the Board and management until 2003.

Management had clearly suggested at the District Group Board meeting in August 2001 that the timeframe for the merger decision was short because of the Housing Corporation. Whether the Corporation’s timeframe was precisely true was not ascertained, however a decision ‘forced’ (either in reality or through perception) was a high risk decision. It is unlikely that the decision would have been any different had more time been taken, as the merger decision reflected a belief, inspired by confidence in management and a less-than-challenging Board in District’s case, that this was the right thing to do and would yield benefits, even though they had not been adequately demonstrated. Subsequent to the merger, it emerged from discussions with Rural board members that the Rural Group Board (which also met in August 2001) had placed less emphasis on the cost savings and had, at least notionally, considered that large cost savings would come from refinancing, taking advantage of District’s financing arrangements and the larger scale of the combined borrowing. From District’s point of view, the cost savings identified in August 2001 were £500,000 of staff savings. This point was ‘in the spaces’ in the meeting in June 2003.

The Board meeting in August 2001 highlighted the spaces between the formal, hierarchical system of accountability based on a calculative accounting (the Business Case and financial justification for the merger) and the informal, socializing form of accountability.
based on a sense-making narrative (the Board discussion, focused by the short timeframe in which the merger decision was to be made). These issues emerged largely because of the confidence the Board placed in executive directors and a small sub-committee of Board members, who, based on the Chair’s remarks in the previous section, were less than compelling. The final decision over the merger was—in the spaces—abrogated in favor of the Housing Corporation and lenders who had to approve the merger before it could proceed.

The impact of the merger on tenants, either in terms of rental or maintenance or service, remained similarly in the spaces. Tenants may be worse off, if as a result of rent capping and borrowing covenants, service generally or maintenance expenditure specifically is reduced. The effect of maintenance spending (or restraint) cannot be determined because, despite the due diligence report of July 2001 stating that:

| An updated stock condition survey ... is now overdue and we recommend that this is commissioned urgently |

and organizational efforts to continually maintain the survey, no report had been made available to the Board to quantify the extent of any backlog of repairs and renewals that may be required to maintain the housing stock in satisfactory condition. Despite management assurances to the Board throughout the field study period that the Stock Condition Survey was in hand, the Housing Corporation’s Annual Viability Review early in 2003 raised this as a matter that still needed to be addressed. The adequacy of maintenance expenditure, particularly in the long-term, remains in the spaces.

The merger itself was to a large extent a consequence of not being able to grow organically, a result of competitive markets for land availability and housing grant. Growth was necessary at least partly in order to defer the accountability of a breakeven position by Year 8 of the business plan. The exact financial position of the Group is thereby distorted as accountabilities are continually deferred to a later period that never comes if it continues to grow, either internally or through restructuring or merger. This deferral of accountability is also hidden in the spaces and rarely acknowledged openly.

The errors in the reported financial statements, the additional audit work and the resignation of the Finance Director culminating in the Board meeting in September 2002 reflected the inappropriate confidence the Board had held in the post-merger Group’s financial management, in the Finance Director specifically and to some extent towards the senior management generally. In terms of Roberts’ framework, the hierarchical calculative accounting had failed and the socializing sense-making narrative had been at worst misleading, or at least incomplete. In the spaces between these two forms of accountability was the messy day-to-day process in which basic accounting practices were not followed and a lack of supervision failed to recognise these omissions. If senior management did recognise the omissions, they either failed to consider the consequential risk, or considered any risk not to be worth reporting to the Board until the disclosure of the errors in June 2002.

It is in the spaces between what is reported that Boards need to enquire to ensure that control is maintained, accountabilities satisfied and to ensure effective governance. In responding to management agendas and papers, Boards—particularly when composed of unpaid volunteers—have little time to stand back from the detail that is presented to them and ask ‘big picture’ questions about governance and control.
In the presentation of information by management to Boards, there is an implicit selectivity. In the absence of a strong Chair and Board, the Board will receive selectively assembled information from management. What is presented to the Board is partial, and it is often what is not reported, rather than what is, that is more relevant. Management tells a story that is leading, rather than misleading. The packing of agendas and tight timescales for meetings reduces the opportunity for informed discussion among Board members. There was a sense in the field study that problematic issues were also watered down in the production of the Minutes of Board discussions. Whereas errors of commission were checked, errors of omission were rarely recognized by Board members.

These hidden spaces are important because they reflect not only the narrowly defined accountabilities to stakeholders, but also the relative power of those stakeholders. The regulator and lenders undoubtedly take precedence over tenants as they have the power to maintain, increase or restrict resources (legitimacy or financial). Tenants in particular, and in the wider perspective the tax-paying public, are to a large extent ignored in this accountability. Tenants are effected by cost escalation in increasing rents (in the first period), or by reduced service, maintenance or renewal (in the second and subsequent periods). Despite the ethos of voluntary Board members and senior management towards tenants as the prime stakeholder, the reality of the hierarchical accounting to regulator and lender is not adequately balanced by the socializing narratives. The ethos is present in Board meetings but attempts to operationalize that ethos remain hidden in the spaces.

7. Conclusion

Social housing, while having largely social objects, is clearly identifiable as a ‘social business’ as its regulated activity has to be balanced with its private sector borrowing. This quasi-public nature is reinforced by the necessity to adopt a private sector governance model and the clear responsibility of the Board for the control and direction of the organization.

Notions of accountability—who is accountable, to whom, and for what?—are embedded in all accountings, which are limited and partial technologies. Roberts and Scapens (1985) argued that accounting institutionalises the notion of accountability. Accountability is especially important in the post-Cadbury emphasis on corporate governance, under which accountability is also institutionalized by governance processes. The field study suggests how the accountabilities in governance processes have as their intention the legitimation of the organization in its dealings with the regulator and lenders; giving the Board confidence in senior management; and giving a (real or perceived) voice to tenants—each of which is a political act. Legitimation, confidence and voice may be more apparent than real when we consider the spaces in the accountings that this paper has described.

In this study we identified the limitations of both formal accounting reports and the inadequacy of sense-making narratives which make governance processes problematic. Accounting for social housing is a complex calculative technology which provides only a partial and limited representation. Accountability is also complex, with the necessity for compromises over the ability of the organization to satisfy the three stakeholder groups. In this accountability, the prime beneficiary of social housing—the tenant, and to some extent
the tax-paying public—is largely overlooked. Hence the broader corporate responsibilities and effective processes of corporate accountability proposed by Roberts (1991, 2001) are avoided and “the interest [accounting] embodies escape such accountability” (Roberts, 1996, p. 59).

The governing body recognized accounting as partial, whether biased or incomplete. The limitations of accounting reports and the need for a sense-making narrative in Board discussions were illustrated throughout the field study. However, while the narrative may be helpful in making some sense of accounting, management may not highlight particular aspects of organizational functioning. Thus there is a space between the calculative and the narrative that is vacant, when questions may not be asked, when information provided is (accidentally or deliberately) incomplete, ambiguous or misleading. This paper suggests that accountability and governance may be problematic in this space where both accountings and what is reported to the Board are silent, particularly in relation to broader accountabilities.

This paper has built on the distinction made by Roberts (1991, 1996, 2001) between a formal, hierarchical system of accountability based on a calculative accounting, and an informal, socializing form of accountability based on a sense-making narrative. We conclude that it is in the arena where accountings are silent and in the space between what is reported to the Board that a third type should be added to the calculative accounting and sense-making narrative identified by Roberts. This is the non-calculative, non-narrative, the vacant, hollow, vacuous, disengaged, space. It can be identified through empirical observation or by reason. It requires observational and analytical skills, to question what is not there but should be there. It requires critical understanding on a broader level, imagination even, in order to see and understand that which is not represented in accounting reports or present in discourse.

This is a major challenge for governance processes. Hierarchical systems of accountability are limited in terms of the Board’s role as an entity that holds management accountable. However they may be adequate to gain legitimation in the Board’s role as an accountable entity. Socializing forms of accountability exist more to reinforce and enhance hierarchical forms. The tension for the quasi-public organization is that hierarchical systems reinforced by regulatory activity may tend to take precedence over socializing forms that have the capability to dig deeper into the hidden spaces. In both forms of accountability, the hidden spaces contain issues of broader societal accountabilities that are suppressed by the calculative forms and inadequately expressed by the socializing forms. It is in the spaces that we must look to discover the deeper truths.

Finally, this paper calls for further longitudinal research into issues of accounting, accountability and governance in which neither the calculative accounting nor the sense-making narrative are sufficient to permit adequate control by Boards. Further research is also encouraged to explore the similarities and differences in governance between private sector and quasi-public Boards.

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