

**FROM BUREAUCRACY TO RESPONSIVE
MANAGEMENT: A COMPARATIVE STUDY OF
LOCAL GOVERNMENT CHANGE**

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FOREWORD

Over the last twenty years or so there has been a massive change in the way local government services are managed and delivered. This report looks at some of the drivers for those changes, comparing experience in Scotland with that of New Zealand.

The pressures for delivering good services, yet driving costs out of the system, affect the public sector as well as the private sector. Responding to those pressures is very challenging, in a culture where the profit motive is seen as wholly or partially irrelevant to the fundamental purpose of public sector services. In the absence of market forces (which allow the combination of customer choice and effective price mechanisms) as the means of gaining direct feedback on customer satisfaction, alternative solutions are required. The creation of a management framework which allows effective allocation of resources coupled with effective accountability, whilst allowing service standards to be measured and monitored in a way that is also seen as relevant by consumers, thus becomes an essential part of the solution.

It also becomes essential for the interfaces within local government activities to be able to understand each other's activities so as to optimise the use of scarce resources. In the same way the importance of standardised non-financial benchmarks, as well as those that are financially based, becomes increasingly evident as accountabilities improve within an organisation.

Chartered Accountants are not just interested in measuring money; nor are their measurement and reporting skills only relevant to private sector activities. The Research Committee of The Institute of Chartered Accountants of Scotland ("ICAS") provided research-funding support to

the Institute of Public Sector Accounting Research (“IPSAR”) with the aim of stimulating interest and exchange of best practice experience in these important areas. ICAS believes that the report will be of use and interest to those whose professional activities extend to involvement in these important areas of national life.

Nigel Macdonald
Convener
Research Committee

May 2002

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EXECUTIVE SUMMARY

Introduction

Local government is often characterised as bureaucratic and inefficient and as delivering essential services which are taken for granted. Major interest in local government activities centres on services not being delivered efficiently and any headlines this may attract. There is also considerable interest in the levels of taxation required to finance local authorities and the levels of expenditure which they incur in delivering services. All these factors can serve to reinforce a stereotypical view of local authorities as bureaucratic machines. However, there is a revolution taking place in local government. This is a global revolution. Its purpose is to pose fundamental questions of local authorities on how they organise, how they manage and how they determine the quality of the services, and the efficiency of the services which they arrange or offer for their citizens. In short, there is a fundamental shift at force in local government – from bureaucracy to responsive management. This is the topic of this research report. The major focus of this project has been on:

- management and organisational changes in local authorities; and
- the role of accounting in the process of managerial change.

As mentioned above, these changes are a global phenomenon. This study examines the international aspect of these developments by comparing the experiences of Scotland and New Zealand. The rationale for the comparison of these two countries is explained more fully in the discussion of research methods, later. The principal reasons for the comparison are their similar size, history, shared culture and pre-disposition to reform their public sectors. Both countries have experienced similar transformations of their respective public sectors. The aim of this research was to make a comparative examination of

the process and implications of changes in local authorities in Scotland and New Zealand. The purpose of this investigation was to enhance the understanding of both (1) the factors which determine how local government management structures and processes adjust to change and (2) how accounting information is involved in this transformation of the public sector.

Research method

This research was based on case studies. There were four local authorities (two cities, two rural authorities) in Scotland and two local authorities (one rural and one city) in New Zealand. The local authorities included in this study were selected (1) to capture the different challenges facing rural and urban local authorities, (2) to examine authorities within the rural/urban split with significant levels of expenditure and (3) to include local authorities which were recognised as leading edge. Leading edge companies were identified from the views of professionals in the field, the achievement of awards for excellence, the provision of reference points in influencing government policy, and because of innovations made. The research explored processes of change by examining documentation, both from within the local authorities, themselves, and from central government and oversight bodies. The change agenda of the local authorities included in the study was then discussed with key persons in each local authority. In each authority the key persons were the Chief Executive, the Director of Finance and Directors of the major spending departments (such as Housing, Education, Social Work, Roads) and key departments (Corporate Policy, Economic Policy and Development) for strategy setting. In addition to the senior managers, key elected members of these local authorities were also interviewed. This included the Leader of the Council, plus conveners of major committees with spending responsibilities. To complete the picture of what is, and has been, happening in local authorities, key officials and members of professional bodies involved in the development and promulgation of policy guidance for local authorities were interviewed.

Key results

The major result, in terms of managerial and organisational changes, was that of a move away from old-style bureaucratic management to a more responsive style of management. This was a development common to local authorities included in this study, whether rural or urban, and whether located in Scotland or New Zealand. However, as discussed further later, the degree to which the ‘responsive management’ mode was achieved varied across the case study sites in this project. The major dimensions of these changes were the rejection of a departmental focus for service delivery, an attenuation of professional interests amongst service deliverers, and a reaction against centralised, rule-based, procedural bureaucratic types of organisation. Instead, the *new* management focus exhibited the following characteristics:

- a support for devolved management responsibilities;
- a shift from service providers to being enablers, by outsourcing/contracting services;
- a move away from a set of values which were internal, and driven by professional interests within local authorities, rather than the needs of the citizen as ‘customer’;
- a rejection of short termism and a desire to take a more strategic perspective on the activities of the local authority; and
- the promotion of a corporate philosophy and perspective rather than narrow, sectional interests.

In practice, the above developments were made concrete by establishing what might be called ‘listening posts’: forums for citizens to discuss, debate and interact with policy makers on key issues affecting their local communities. Other tangible evidence of changes is the impetus behind de-departmentalisation, for example in areas of housing, social work and education to promote more coherent policy making.

Another manifestation of this is the cross-cutting approach, in which local authorities focus on the recipients of their services – such as children – and provide a cross-departmental analysis of their needs and policy implementation. These developments were also accompanied by political change: the most notable example of this is the abandonment of the old-style committee structures organised on a service-by-service basis, which perpetrated the bureaucratic machine, and its replacement with a cabinet style of government. This development sharpens the policy-making focus of the local authority and enhances the capability of strategic changes of the type described earlier.

However, it would be misleading to present the case of all local authorities advancing together, marching in time to the same tune. Both the New Zealand local authorities included in this study have made substantial progress in transforming their focus and methods of operation. However, Rimu City Council has achieved this through cultural change, emphasising employee and citizen participation, whereas Rata District Council has focused primarily on efficiency gains, particularly through contracting out. Amongst the Scottish authorities, McLeod Council has made some of the most dramatic changes; like Rimu, it has paid as much attention to culture change, and the development of a vision shared by both managerial and political leadership, as much as the development of flattened matrix structures. These developments are not so evident in some of the other authorities.

Clearly, changes have been made in the organisation and management of local authorities, both in Scotland and New Zealand, as evidenced by the case studies included in this report. However, there are difficult issues concerning the influence of accounting and financial information in shaping and influencing such changes. In this, there are substantive differences between the experiences of New Zealand and Scottish local authorities.

In New Zealand, there has been a greater focus on a convergence of accounting practices across the private and public services, as exemplified by its one single professional body. There has also been a more explicit drive to restructure local authority provision. In Scotland, local

authorities are given responsibility for large areas of public expenditure, such as social care and the provision of school education, which are the direct responsibility of central government in New Zealand. This has the effect of scaling down the range and mix of services on offer in New Zealand local authorities. As a consequence, there is a greater potential for rapid organisational and management change in New Zealand local authorities. There is also a greater potential for accounting and financial information to permeate the New Zealand local authorities more rapidly. Allied to this is the explicit reforming agenda in New Zealand, which predates the UK modernisation strategy, and there is evidence of particular types of authorities being encouraged to operate within a more strategic framework.

In Scotland, the experience was different. The major driving force for change, in Scotland, other than the desire of key managers and elected members to dispense with outmoded bureaucratic practices, has been the (non) availability of finance. For local authorities in Scotland, and indeed, the UK, there is a starkly different model from that of New Zealand. The prospect of self-financing is real for New Zealand local authorities, but not a genuine prospect for Scottish or UK local authorities, given the mix, scale and scope of their statutory responsibilities. As a result, Scottish local authorities are more heavily dependent on central government support to finance their activities. In the early years of the new, reorganised, unitary system of local government in Scotland, significant budget reductions forced the pace of change. This was allied to a situation in which local authorities had tended to have a budgetary equilibrium focus (*ie* “balance the books”) rather than a strategic focus. The resultant shift of emphasis in the ‘newer’ bracing environment of the unitary authorities has made escalating demands upon local authority finance departments with which they have found it difficult to keep pace. There are a number of reasons for this, aside from the sudden shift in expectations of ‘what’ finance departments can and should provide for key decision makers. Partly, this is a question of lack of staff resource. Another major factor is the difficulty of under-investment in IT systems, with the challenge of replacing multiple

non-compatible, IT systems from their predecessor authorities, from the previous two-tier local authority structure. There are also difficulties around expectations: the directive that all local authorities had to develop activity-based costing (ABC) systems was rather optimistic given the staff resources in local authorities, the complexity and time-consuming nature of ABC systems and the fact that this had not been developed previously in the local government environment.

However, this is not a story about failure. The case studies in this report, in both countries and in both urban and rural settings, demonstrate the importance and utility of accounting and financial information, despite the above implementation difficulties in Scottish local authorities. A major element of this change has been the shift away from the annuality convention in local authorities which had a major, deleterious impact leading to short termism, end of year spending sprees and difficulties of planning. Now there is three year budgeting in Scottish local authorities (this still compares unfavourably with their New Zealand counterparts) which shifts the focus beyond coping financially within a single year. Also, within the Best Value regime, there has been a major force for the integration of budget planning with strategic thinking – the evaluation of options and consideration of quality in service delivery. This has resulted in budget strategy review groups in all the Scottish case studies. These bodies present a more coherent analysis of the options facing these authorities, there is a demanding scrutiny of expenditure levels, all within the framework of ‘citizen as customer’.

There is, therefore, evidence in these case studies of accounting information, even if less refined than demanded, assuming a role of significance in setting local authority priorities. However, it is important not to overstate the case. The major area requiring further development is that of performance indicators (PIs). There has been a lot of work in this area, but this seems to be of more use at the macro level. Within segments of local authorities there are disputes about the efficiency and sensitivity of available PIs. A crucial factor in mitigating both of these limitations has been the manner of use and deployment of accounting staff. In New Zealand, there was use of the ‘accounting

buddy' approach, in which accounting expertise was brought to bear to enhance key decision-makers' understanding of the financial implications of their options. In Scotland, the outposting of finance department staff into large departments to assist them in the detailed construction and monitoring of their budgets and consideration of policy options, was reported to have increased the level of sophistication and the level of debate within management meetings. Accounting and finance, therefore, has more than arrived: it has a dominant role in the daily working life of the key actors in these local authorities.

Conclusion

Local authorities have often been the subject of criticism, as rigid, hierarchical organisations. However, this study has shown that local authorities are not static. They are complex organisations with diffuse responsibilities. Furthermore, there is evidence from this research study of significant, and different kinds of change:

- structural;
- organisational; and
- processual.

The structural changes involve de-departmentalisation and cross-cutting, and co-ordination missions to provide a more coherent interface between the diffuse set of services in most local authorities. They also involve the out-sourcing of activities (such as residential care for the elderly) where the local authorities were major providers, rather than enablers. Within organisations, there have been distinct changes – new management styles, new organisational cultures and a convergence of the political and managerial agendas. Within all of these there have been distinct processual changes, with accounting at the heart of these: new budgetary strategies which are not static pictures at one point in time, which have a broader focus than the old style restriction to 'balancing the books' and which relate to new styles of management as espoused in the

Best Value initiative. There is still scope for development and change. However, it can be said that local authorities have not only embarked upon the journey from old style bureaucracy to new-style responsive management but that they have made significant strides in this direction. In all of this, accounting has a role in the centre of this stage.

The evidence of these case studies suggests the following ten recommendations for the successful implementation of desirable change:

- Break down barriers between accountants and non-accountants so that managers view accounting information as for themselves rather than for the accountants. The posting of accounting staff to operational departments or the use of 'accounting buddies' (a specific member of the accounting staff to whom each service centre can turn to for advice) is helpful as is the recruitment of accountants with strong interpersonal and communication skills.
- Provide all staff and elected members with appropriate training in the use of accounting information. In particular, the purposes of the information should be made clear. Managers should then understand why their timely input of accurate information is necessary. If better information is provided, it is more likely to be used. If information is used and found useful, it is more likely that managers in turn will want to input good information.
- Where possible, tailor reports to the needs of users, rather than issuing a standard format report to all managers.
- Develop meaningful non-financial performance information by consulting users and sharing ideas with other local authorities. Merely following requirements of external reporting or central government directives may encourage a ritualistic compliance mentality rather than genuine efforts to manage performance.
- Integrate financial information with non-financial information, investing in new information systems as necessary. 'Accounting information' has to be conceived of much more broadly than just

financial information if it is to continue to be the ‘lifeblood’ of an organisation.

- Develop good commitment accounting systems which give early advice of potential budget problems.
- Maintain simple costing systems which are fair to all parties across the organisation. Develop more complex systems only when the need arises and principles of costing are well established within the organisation.
- Recognise that conventional accounting tends to be more compatible with some cultures (*eg* production cultures such as engineering) than with others (*eg* ‘craft’ or ‘coping’ cultures such as education or social work). In the latter types of activities, notions such as standard cost may be counter-productive.
- Exert financial discipline at all times whilst encouraging innovation (for example, process re-engineering) to achieve it. Hold managers accountable for their budgets but ensure that these, and the subsequent monitoring reports, are based on timely and fair information. If a senior accountant and a senior operations manager work together in discussing budget performance with the individual service managers, and co-operate in finding solutions to any problems, the accounting information is less likely to be viewed as a threat.
- Given the limited, constrained resources of local authorities, there is potential for central agencies (central government, COSLA, Accounts Commission) to undertake development work to promulgate best practice in financial management.

CHAPTER ONE

INTRODUCTION

In recent years the public sector of many advanced economies has undergone dramatic change. A key element deployed in the transformation of the public sector is identified as the New Public Management (NPM). The emergence of this NPM trend has been well documented (Hood, 1991, 1995; Ferlie, Pettigrew, Ashburner and Fitzgerald, 1996; Pollitt and Bouckaert, 2000). It has been called a 'revolution' and a 'transformation' by these writers, indicating the pervasiveness of the changes. Hood (1995) contends that accounting has had a central role in the implementation of NPM. The aim of this project was to map the extent of such managerial and accounting changes in local authorities in New Zealand and Scotland. This comparative approach is important as it recognises the potential for important international variations (Hood, 1995). More particularly, it allows an examination of the experiences and practices of two countries which have been recognised as being at the forefront of public sector reforms (Pollitt and Bouckaert, 2000), with the New Zealand experience serving as a useful benchmark for the Scottish changes (Lapsley and Pallot, 2000). Also, the comparison of the New Zealand and Scottish situations is valid on a number of levels: both of these countries are small, with a shared cultural heritage; the vast majority of New Zealanders have British ancestry with a significant Scottish representation in this; there are, understandably, many similar legal and social institutions in the two countries and, in particular for this study, the New Zealand professional institute of accountants is modelled closely on its Scottish counterpart. This broad canvas makes the New Zealand : Scotland comparison apposite for this study.

Aims of project

This project is an empirical study of organisational change which examined the extent to which NPM, and, within this, accounting, have taken hold in local government. The project addressed the following two research questions:

- to what extent has accounting information permeated local government management?
- has accounting information constrained or facilitated management change in local government?

The NPM literature (Hood, 1991, 1995; Ferlie *et al*, 1996; Pollitt and Bouckaert, 2000) identifies a number of characteristics of management change involved in the shift from traditional bureaucratic public sector institutions to new style public sector organisations with responsive management. These can be summarised, as follows:

A strategic management focus

This is evidenced by a move away from reliance on traditional budgetary information which is geared to cost control. Instead, finance specialists develop an external focus, scanning the external environment in its financial analyses.

Horizontal co-ordination (de-departmentalisation, teamwork)

This is a facet of the current policy of 'joined-up' or 'cross-cutting' policies which seek to overcome the existence of departmental 'fortresses' or 'fiefdoms' which have an unduly narrow view of the activities and objectives of local authorities. The implementation of horizontal co-ordination is conceived to achieve a holistic approach to policy setting and implementation and to overcome the inhibiting factor of introspective, departmental views of the world.

Devolution and accountability

Devolution and accountability, is the belief that, not only does management perform best when there are powers delegated to the sharp end of delivery of public services, but also that there have to be clear lines of accountability to ensure that delegated powers are exercised effectively.

Culture change (key values: quality, innovation, learning)

This is an altogether more subtle part of the change management process in the public services and local government. This is a recognition of the need for local authorities to adapt, to change, to innovate with employee and management buy-in to make these changes sustainable. The local authority as a learning organisation, rather than a rigid, static concept of what local government is about.

Responsiveness to consumers (internal and external)

The need to ‘rethink’ the organisation away from the perspective that ‘providers’ know best, and, instead, to be more responsive to the needs of citizens and customers, who may be other parts of the organisation or citizens remote from the actions of managers.

A shift from service provision to service procurement/contracting out/ partnerships

This is a reflection of the change from local authorities as providers of services to purchasers of services. A topical example of this would be the reduction in the numbers of homes owned and managed by local authorities which provide care for the elderly. This traditional model of the care of the elderly is being replaced by a service procurement model in which local authorities use their resources to purchase care for elderly residents in residential facilities owned and managed by charitable or private sector entities.

Communication, transparency, openness, participation

This is a message about the need for management to communicate in a very open way, with a variety of forms to encourage participation, whether by public meetings, websites, local newssheets. A policy about not being introspective not excluding stakeholders. This is a 'near business excellence model', in which local authorities recognise the importance of their 'market' in planning service provision, organisation, co-ordination and delivery.

These dimensions of management change have also been identified, to a greater or lesser degree, in the context of local government (Hadley and Young, 1990; Leach *et al*, 1994). This schema therefore serves as a useful reference point in mapping out the organisational and management changes in local government. However, there have been a dearth of studies which have explored the accounting implications of management change in local government. This project sought to redress this imbalance. The initial position was to explore the nature and ramifications of organisational and management change and, using this as a context, explore how and to what extent, accounting information is embedded in the organisational life of local authorities.

This report examines local government in Scotland and New Zealand in a situation of change. These changes in local government are both structural and changes of management practice in both countries. In Scotland the changes have been wrought by central government. One significant change has been a shift from a two-tier to a unitary system of local authorities, which has reduced the number of such authorities and changed their statutory functions. On 1 April 1996, the Local Government (Scotland) Act abolished the nine regional councils and the 53 district councils on mainland Scotland and these were replaced with a single-tiered system made up of 29 unitary councils. The change of Government in the UK in May 1997 has also resulted in initiatives (the abandonment of Compulsory Competitive Tendering, the introduction of Best Value (DETR, 1998)) targeted at changing management policies

and practices throughout UK local government. In Scotland, the Best Value initiative is based on the key dimensions of the NPM highlighted above (Scottish Office, 1997, 1998) which underlines the global nature of these reforms (Olson *et al*, 1998).

In New Zealand, the Local Government Amendment (No.2) Act 1989, brought about the most dramatic reform of local government since the abolition of the provinces in 1876. The number of local authorities was reduced from over 700 to 85, of which 72 are territorial authorities (cities and districts) and 13 are regional authorities. The legislation sought to impose on local government the same model of public management that had been adopted for the state sector (see Boston *et al*, 1996 for a description); for example, by de-coupling politics and management, placing chief executives on renewable five year contracts, creating separate Local Authority Trading Enterprises, and requiring financial information to be based on full accrual accounting (including depreciation) together with audited non-financial performance information. Annual plans must be prepared in consultation with citizens and reports prepared against these plans at the year-end. The Local Government Amendment Act of 1996 in New Zealand brought in a new wave of initiatives, including a new long term asset management and financial planning regime. The Act also requires funding policies which try, as far as possible while still consistent with a council's social equity and other objectives, to match the source of funds (*eg* taxes or user charges) with the type of service (*eg* public good or private good) and to charge the cost of services to the beneficiaries of the services.

It is widely recognised that both the UK and New Zealand have been at the forefront of the 'modernisation project' - the policy of transforming large scale public sector bureaucracies into deliverers of services which are responsive to the needs of their customers (see, for example, Pollitt and Bouckaert, 2000; Boston *et al*, 1996). In this general trend, accounting information and practices have been accorded a role of some significance by many commentators on the public sector reforms (Humphrey *et al*, 1993; Olson *et al*, 1998). As Olson *et al* (1998, p.18) put it:

An increasingly notable element of the New Public Management movement is the seemingly endless list of accounting-based techniques that are being drawn on in the pursuit of reform.

The centrality of accounting as an instrument of change is particularly evident in New Zealand, as the Governor of the Reserve Bank, Donald Brash, observed:

*We have greatly improved the efficiency of resource use in the public sector ... partly through the simple expedient (**emphasis added**) of introducing proper accounting principles to the public sector.*
(Brash, 1998, p.3)

Accrual accounting, as McCulloch and Ball (1992) point out, was not seen primarily as an external reporting issue but rather as an integral part of overall *management* change. In particular, it was thought to contribute to better asset management and full costing of services on a comparable basis with the private sector, allowing rational choices to be made between competing suppliers.

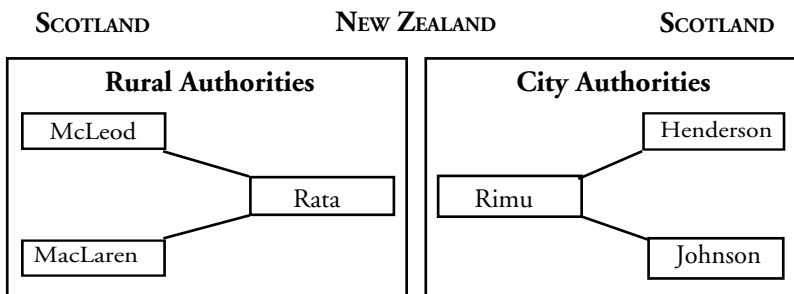
Research methodology

A case study approach to the collection and analysis of empirical evidence was chosen. This is now a well-established method within accounting research (Kaplan, 1986). The international comparison in this project benefited from a multiple case study design (Yin, 1994), in which a variety of data collection strategies were used to highlight and corroborate findings and conclusions which might otherwise be inextricable in their particular national contexts. For this reason, the research design was developed to produce a number of comparisons at the level of the unit of analysis (Yin, 1994). As noted earlier, given the lack of research on this specific area, and the distinct comparative approach adopted, this project is mainly exploratory. Next the unit of analysis; sub-units of analysis; and the data collection process are examined.

Study settings

The main unit of analysis of each case study was a local authority. This project, investigated six local authorities in all: four in Scotland and two in New Zealand. Each authority has been assigned a name to preserve confidentiality. This includes two cities in Scotland and one in New Zealand; two rural local authorities in Scotland and one in New Zealand. As noted earlier, this project's research design is based on multiple comparative levels. The case study sites yield two specific comparative levels based on (1) regional and (2) national differences. Regional differences are important in local government because of variations in policy formation and delivery, where perceptions of what is/will be significant at the local level may lead to distinct differences in urban and rural settings (see, for example, Thomas and Imrie, 1997). The importance of the international dimension has already been alluded to, earlier. At the level of the unit of analysis, the following multiple case study design shown in Figure 1 was used.

Figure 1.1 – The Study Settings



Of the local authorities included in this study, the rural authorities of New Zealand and Scotland have certain commonalities and differences. The New Zealand rural local authority, Rata, is smaller in scale than its Scottish counterparts. This is a reflection of distinct policies within

New Zealand which have placed a greater emphasis on outsourcing of activities. This rural authority also has a more restricted range of functions and activities than its Scottish counterparts. The Scottish rural authorities, McLeod and MacLaren have a wider range of services than Rata. However, there are significant differences between McLeod and MacLaren in the manner in which they organised themselves. Within a common framework which seeks to shift local authorities from bureaucracies to responsive organisations, McLeod has placed considerable emphasis on a distinctive organisational structure, with a value-based mission statement to support it. MacLaren has favoured a more procedural or processual approach to change management.

The city authorities include Rimu, which is one of New Zealand's foremost examples of modern city organisation and management. The New Zealand cities have a narrower range of functions than their Scottish counterparts. Within the Scottish cities, both Henderson and Johnson have faced financial difficulties with reduced budgets and increasing demands. Both of these city authorities have had to make management and structural changes in response to local government reorganisation. In both of these city councils, finance and accounting assume significant roles in city management.

Key actors interviewed

This project has an embedded case study design (Yin, 1994). The key actors interviewed (or sub-units in Yin's terminology) are the upper echelons of management in local authorities. This includes officers employed by the local authorities and elected members of local authorities in positions of influence and seniority. In summary, the key persons interviewed in these local authorities were as follows:

- Chief Executive Officer (CEO)
- Leader of the Council (Provost/Mayor)
- Director of Finance

- Directors of Operational Services with significant budgets
- Conveners of Committees overseeing operational services with significant budgets

Typically, the key persons interviewed included those responsible for education, housing, social work in Scotland or streets and roads in New Zealand. We also interviewed other officers with strategic importance (designated as implementers of new policies and procedures) or where local conditions dictated that they had an above average budget (for example, for industrial development and promotion). This also differed in New Zealand where delegated functions differ, as discussed in the individual case studies. Overall, this resulted in 65 interviewees across the six local authorities in the study.

The decision to use these sub-units of analysis – and, in particular individuals in positions of leadership – is justified by the literature (Elcock, 1996; Leach *et al*, 1994) which supports the view of a core executive class rising in local government who have control over policy and resource allocation. It is from this executive class that change agents can be expected to arise whose role it is to:

... identify the radical nature of the changes needed (not just in structure and process, but in strategy, culture and systems also) and to develop a capacity to persuade others of the need for change and then to implement it. (Leach et al.; 1994, p.89)

The research focus on a group of change agents not only serves to identify where certain changes are coming from but is also supported by research (Denis *et al*, 1996) which argues that ‘change requires collaborative leadership’ (p.695) and

... more specifically the formation of a tightly knit group of actors that can perform specialised, differentiated, and complementary roles in moving the organisation in the desired direction. (p.689).

Data collection process

One advantage of the case study method is that it allows for a variety of different data collection methods to be used. There were two main sources of evidence (interviews and reports) which were the subject of a comparative analysis of study settings. This was to facilitate a convergence of evidence between the comparative levels at the main and sub-unit level. This triangulation (Denzin, 1978) was to ensure the construct validity of the research project. Data was collected mainly by interviewing the set of actors identified above. The interview process in each authority began with the CEO. Interviews were semi-structured and thematic with a focus on 'critical incidents' in the management of local authorities to explore issues in depth. Themes used in the interviews are documented in Annex A. The material gathered in the interview with the CEO informed succeeding interviews. Documentary evidence (public pronouncements, government policy statements, submissions to government, reports by oversight bodies) of changes to support claims of changes made were also collected, as part of the process of building a picture of these local authorities.

Structure of the report

In the report the case studies are grouped along the lines set out in Figure 1.1, with the City Councils (Rimu, Henderson and Johnston) and the rural councils (Rata, McLeod and MacLaren) examined in turn. The focus is on management changes and the role of accounting information in these. Therefore each case study is organised along the following lines:

- background (contextual information on the study setting);
- overview of the management changes;
- accounting and financial information system changes;
- the role of accounting in management change;

- the use of financial information by key decisions makers; and
- conclusion.

The report concludes with recommendations (Chapter 9) after a cross-comparative study of the case study material (Chapter 8).

CHAPTER TWO

RIMU CITY COUNCIL

Rimu City Council has a population of around 320,000 in an area of 452 square kilometres. It has been in its present configuration since 1989 when five local authorities and some special purpose authorities were amalgamated. The council undertakes the full range of activities found in New Zealand local government (provision of infrastructure and civic amenities) while being more active than many New Zealand councils in supporting social initiatives such as pensioner housing, youth crime prevention and encouraging economic development. Commercial activities of this council, operated under a holding company, are quite extensive. They include public transport, an international airport, a major port, electricity reticulation and part ownership in forestry.

Overview of management changes

Two distinct phases can be identified in Rimu: the first four years (1989-1993) under City Manager 1 and the time since then (1993-) under City Manager 2 although the changing approach is also a consequence of changing attitudes at the political level, external trends and pressures and a natural maturation process in a changing organisation.

In the four years immediately following amalgamation, Rimu put a great deal of effort into the annual plan process and its accompanying public participation. It was one of the first councils in New Zealand to introduce surveys of residents to obtain information on their preferences and their satisfaction with services provided by the council. Considerable effort also went into ensuring accountability of the staff organisation to the elected members, centring on a corporate plan with a large number

of detailed objectives and performance measures to set and monitor achievement of service delivery standards. There was considerable organisational restructuring which included amalgamating the previously separate councils and *ad hoc* authorities, separating off the trading activities and organising departments with clear lines of accountability. Accrual accounting and outputs-based budgeting were introduced quickly and the council prided itself on its financial conservatism (no increases in rates/property taxes for four years). An extensive process of public consultation was introduced. In 1993, Rimu received an international award for excellence in city management.

A new city manager, appointed (from within) in 1993, decided that a rapidly changing environment required a capacity for innovation and adaptability which traditional hierarchical bureaucracies tended to restrict. He therefore decided to place primary emphasis on changing the organisational culture. The new values were those of modern private sector management theory, for example, innovation, customer focus, employee empowerment, teamwork, quality (the city manager prefers the term 'value'), devolved decision making, multi skilling, learning and development). However, these were put together in a way distinctive to Rimu and building on existing features of the organisation rather than taking an 'off the shelf remedy' or 'textbook theory'. In 1994, the ideas initially drafted by the city manager were captured in a key statement titled 'Giving Value - Being Valued' after extensive workshops with all interested staff. This one-page statement sets out the 'Rimu vision', 'Rimu way of doing things' and 'Rimu way of working together' and every staff member has a copy. It focuses not only on the contribution each individual makes to the achievement of outputs, but also on how teamwork and innovation contribute to performance.

The shift in management style at the organisational level coincided with a shift at the political level to more visionary strategies. Leading councillors began to adopt the attitude that they did not get elected just to watch the budget, but to do things for the city and improve the quality of life in the city. The first initiative was a series of civic enhancement projects (which required management to develop long-term financial

strategies well in advance of the 1996 legislation). The second, focusing on social areas like employment, crime and disadvantaged youth, came out of the 1997 planning cycle which considered global and local trends and pressures. The Council, therefore, concluded that its primary role in addressing these should be that of a *catalyst and facilitator*, supporting initiatives developed within the voluntary sector of the community and working in partnership with central government, the business sector and other local groups. The notion of *community governance* (steering by and with the community) as distinct from *local government* (government of the local area) is important to this council.

Most staff are on a first name basis with elected members. In addition to formal council meetings and standing committee meetings where the discussion tends to be primarily among elected members, less formal seminars are held on a regular basis. Instead of staff just speaking to reports and answering questions about them, topics are discussed openly and staff are expected to lead and participate in a far more informal sense than in conventional meetings. The media are absent and the seminars become more like 'think-tank exercises and swapping ideas around'.

As policy has become more strategic, the organisation has been developing structures and processes that are likewise strategically oriented. It has been moving away from an organisation based on product (output) or function to more strategic management organisation. For example, its corporate office contains directors without line responsibility but with council-wide responsibility. The number of units has been reduced from over 40 to 22. Unit managers are accountable to the corporate office, rather than a second tier manager, and are expected to spend 20 per cent of their time on strategic, corporate-wide issues. New information systems and processes are being explored to support this. The new organisational culture was quickly embraced by senior management but, according to interviewees, took nearly five years to become comprehensively embedded.

Accounting and information system changes

In 1989 the parent city had a computerised accounting system which anticipated the introduction of accrual accounting and the amalgamation, and the other councils (some of which had manual systems) were brought on to it. The council has long had quite sophisticated budgeting systems although it has produced *via* spreadsheets and not tied to the ledger.

Initially, the legislative requirement to report costs of significant activities was mainly geared around the existing business units. When the new city manager took up the position in July 1993, he started to implement output reporting in earnest, requesting that it be in place fully in twelve months. This involved about 260 outputs. A major issue was allocating overhead time to outputs. At first the council used full-time equivalent staff as the basis for allocation and has progressively become more sophisticated since. A system of suspense accounts for overheads was created. These were then driven out to outputs for projects as required; for example, it became possible to find out what it would cost to run a specific project or activity such as a festival. Initially there were cross boundary charging problems; for example, waterways are partly parks and partly drainage. To save dispute amongst managers and people charging other people's budgets, it was found easier to split this into two outputs.

In 1994, a review of the Council's information management by Audit New Zealand observed that the information systems environment was fragmented and islands of information had developed. There was duplication of data and systems and problems of reconciling the different systems. A general lack of appreciation of accounting and IS issues was contributing to the development of an expectation gap between units' perception of the role of the MIS unit and the results that the existing system could realistically deliver. User needs with respect to management information were ill-defined and the existing systems were constraining management reporting. The information systems had been developed using a reactive *ad hoc* approach, and the report stressed the need to implement a framework for developing and implementing

more integrated and comprehensive systems through the establishment of an IS Strategic Plan. Some progress has been made since that time, especially in the accounting training area (see later in this chapter) but it has been slow in such a large organisation. At the time this study was conducted, the council was in the process of installing a new Financial and Management information System (FAMIS), a Customer Interaction System and other systems including a geographical information system. This required a clear understanding of information needs and how they are best captured, stored and retrieved. The anticipated advantages were that the system would be more technologically advanced and that there would be one time entry of data instead of people inputting the data several times in several different locations. In this way the quality of the information and performance measures would be enhanced and concerns raised by the Audit Office addressed.

Rimu has invested a great deal of effort in encouraging public participation. The range and quality of information provided through detailed and summarised publications, pamphlets, community newspapers, radio and its comprehensive website are of a very high standard. Community boards are active and public meetings lively and well attended compared to those in other local authorities. The Council is constantly experimenting in this area. It is probably the annual survey of residents, initiated in 1992, which provides the most useful information about citizens. A councillor described it as follows:

A very comprehensive survey, very well planned - it takes about an hour for each interview, it is quality information. Because it is a big sample, because they go to a great deal of trouble to get the sample exactly right, it is actually very valuable information on what the public think.

Consultation is also undertaken, and surveys conducted, at a more detailed level with respect to specific projects or in specific areas. Residents' associations and nearly 70 other officially recognised groups are a very important part of the consultation process. They receive information about all proposals and projects in their areas and have

regular contact with service centre staff and community boards. Many make well informed submissions on the draft annual plan and long term financial plan.

The communication with citizens seems to be working well. In a survey conducted by the Consumers' Institute in 1996, the Council obtained the highest rating of any council in New Zealand for its performance in terms of public consultation, promotion of the local area and handling complaints. It was one of only three councils to obtain top ratings for accountability, spending wisely, setting rates fairly and making decisions promptly and the only one to also obtain a top rating for the range of services provided. This first-ranking performance was repeated in the 1999 survey by the Consumers' Institute.

Role of accounting in management change

The 1989 local government legislation cited in the introduction had a number of requirements designed to bring about management change. These included reporting the performance of significant activities (later defined by the Institute of Chartered Accountants of New Zealand to mean the reporting of outputs) and a requirement to report the cost of capital. According to the Director of Finance:

We have tended to take on challenges before they become mandatory. Like that cost of capital business which was in the Act. We tried to wrestle with it and finally got people to understand. Other councils simply didn't bother. It was a bit unfortunate that we had only just got people to understand when they withdrew it.

and

We went through the motions of producing performance measures and I think we were one of the first.

There has been a close interplay between the financial information and the council's shift to thinking longer term and investing in civic enhancement projects. Depreciation was initially calculated simply to

comply with the reporting requirements in the 1989 legislation but over time began to assume more strategic importance:

Initially we didn't do it or use it for anything - it was really just to meet the accounting regulations ... I didn't really think about the benefits of having depreciation until I heard about [another city] having an operating deficit. And then I realised that it was because of depreciation and that we also had an operating deficit.
(Director of Finance)

The Chairman of the Strategy and Resources Committee was delighted with the concept of depreciation:

For me as a non-accountant – who is a bit scornful of the way accountants produce things and make it look more complicated - the biggest single and most practical thing was a requirement to charge depreciation. I found that immensely valuable because I was struggling to convince the council that we were borrowing for operating costs ... When [the director of finance] a year or two later, produced this proposal to charge depreciation, he could demonstrate that we had an operating deficit of about \$14 million. Whether it was \$11 million or \$15 million is arguable because it depended on the basis, but I just said 'Hallelujah'!!! Here is a clear rationale which shows that you ought to be spending so much from your operating revenues to fund replacement.

As the council started thinking about major works in 1993/94 as a means of city revival, there was mounting criticism about the level of debt. As the Director of Finance put it:

That is how we started to develop the financial model for council. [The chairman of the policy committee] kept coming in with questions like, 'Could you do this?' This led us to produce more and more sophisticated information. It started as a half page spreadsheet and eventually ended up with eighteen pages ...

In 1993, well before the passage of the 1996 Amendment Act, Rimu had developed a plan to project expenditure for the next 20 years on a rolling basis and to impose restraints which would ensure that debt levels would remain both prudent and manageable during a period of major investment. The restraining policy limits are embodied in published statements and financial ratios. The Director of Finance commented on these as follows:

I think the ratios seem to have met the test of time. One or two of them - it has been quite stretched to meet them but that probably reflects that they were pitched about right. ... I think there are other councils who didn't get on to this early and, now the legislation is in, are going to find themselves in some difficulty.

The Council is trying to find a balance between efficiency/cost reduction and other objectives:

If you compare Rimu City to some of those councils which have top-down efficiency regimes; some of these may have achieved more in driving costs out of the organisation and doing things more efficiently but it doesn't necessarily mean better in terms of delivering service or community things that Rimu is renowned for. (Councillor)

In a competitive environment with user charging, financial information can change the sorts of decisions made. As a Services Unit Manager put it:

Well, you have to recover 100% of your costs and create a charging regime that people have to pay. Generally you are getting into a competitive environment, it's pretty crucial information. In terms of generating revenue, that's another area. ... through having that financial understanding, it certainly helped drive through opportunities for additional work [which involved] paying for service and paying for added value.

An example was charging solicitors for information about properties at an amount in excess of the cost to produce it but at a price they were prepared to pay.

In an environment which encourages innovation, and where cutting staff numbers is seen to work against the organisational culture Rimu is trying to establish, budget pressure can have a positive effect on processes, as the following comment illustrates:

One of the consequences of keeping the pressure on is now there is virtually no fat in the budget – you can't get more out of the system without doing creative process improvement changes. (Services Unit Manager)

Use of financial information by key decision makers

In the period of City Manager 1 there was an emphasis on financial discipline which had persisted. As a long-serving councillor put it:

Expenditure control is helped by the ethos which was established in the early 1980s. Under [City Manager 1] no one dared misperform and over expend their budget. Even though we have had organisational change this sort of ethos has persisted. It would've possibly been much harder to have a responsible attitude to expenditure if that ethos didn't exist already.

However conservatism was viewed by some as inhibiting innovation:

[I]mprinted in those early years ... that was also the year when there was zero rates rise, three years in a row ... was an attitude 'don't innovate' and implicitly 'don't innovate because it might cost money' or 'innovate to save money but we will plan the same things thank you very much'. So I think people got a little bit wise to the fact, [and] didn't cough up too much because it's gone, there is no opportunity to then reallocate a savings plan to produce more utility for the same spend or whatever ... We have got a set of corporate

capabilities now that talks about creativity, learning and I think it has taken us, myself included, a good long time to say 'well, I can invest time legitimately in thinking about new ways of doing things or doing new things'. There are still some constraints but there is a perceptible difference in valuing new ideas. (Corporate Services Manager)

Inside the organisation, there has not always been an optimal use of the accounting information for day-to-day management purposes. There have been three main reasons for this.

Departments as fiefdoms

First, immediately after amalgamation, there were a number of fiefdoms corresponding to vestiges of the old organisations and this did not encourage information sharing. Rimu also inherited some old style bureaucratic accountants from other councils whose jobs City Manager 1 wanted to be protected. Some of the finance directors from the other councils were without professional accounting qualifications, lacked people skills and were very resistant to change. However, the city manager's policy meant creating positions for them all and having up to five business units to run finance. As people retired, the more entrepreneurial director of finance was able to bring in new blood.

The old school tended to perpetuate a 'them' and 'us' mentality between the accounting department and the rest of the organisation. Accountants were viewed negatively as the people whose approval had to be sought before anything could be spent. Accounting information was deemed to be for the accountants and for external reporting purposes, rather than for management purposes. Another problem, increasingly, was outdated and inflexible information systems software, particularly in light of the development of cross-functional and cross-departmental teams and the desire to produce seamless customer interfaces.

Shortly after the new chief executive took office, some of the old accountants retired and a new accounting services manager was appointed from a major private sector company. He in turn recruited a new breed

of younger professional accountants with strong interpersonal, as well as technical, skills. A system of 'accounting buddies' was introduced whereby each operational unit had a person from accounting services assigned to it, providing ongoing advice on financial matters and forming part of any project teams. The accounting services unit adopted the new philosophy of customer service (in their case, internal customers) and began improving the format of reports and tailoring them to the individual needs of each operational unit or team. It has taken several years for the efforts to integrate accounting and other functions to take effect. According to the Accounting Services Unit Manager:

We have to build that confidence with the customer and have a broad range of skills ... The business units, they are delighted and they see them [accountants] as their allies, somebody who helps them and not just people downstairs who make us sign everything before they will pay the bills. There has been a noticeable difference ... I think we have earned their respect for the quality of the information we give them and the people, whereas before I suspect that some of the accountants expected others to respect them.

Primacy of accounting

Secondly, not all managers have been under sufficient financial pressure to take financial information seriously. Initially the new organisational culture, with its emphasis on quality, led some managers to mistakenly believe that financial matters were not so important any more. It has been necessary to remind managers that financial constraint always matters when dealing with public money. In the words of one of the Corporate Directors:

Well I think over the last few years we have been trying to develop the culture with very much emphasis on culture and I think perhaps we have put that ahead of financial performance. I think we have just come back and said, yes, commitment and culture are important, but also the financial performance and really that's the first thing we need to get right. It all goes together.

Some of the units only started taking accounting seriously, and working with their accounting buddies, when they faced their first-ever budget overspend. A rolling program of educative seminars for units has since been introduced. During the seminars the accounting services staff explain accounting, financial and tax matters to every employee within that unit. The reasons for needing each employee to supply timely and reliable data, and the consequences (*eg* in terms of improved cash flow) of doing so are explained. If any unit looks to be heading for financial problems, the director of operations and the accounting services manager work together with the unit to find ways of averting the problem. Rimu has moved from targets such as 'within 1% of last year's figure' to targets negotiated with each unit by the director of operations and financial services manager. Placing increased pressure on meeting financial targets has been beneficial. In the words of a Services Unit Manager:

I think our financial information has become important as we've had to tighten up and get value and do better. There was a cost-plus mentality before.

Accounting and performance measurement

Thirdly, managers did not get useful information out because they did not take seriously enough the need to put good information in. The information that was supplied to the accounting department was frequently untimely or unreliable. Salaried staff had never used timesheets ("resource utilisation records"). This in turn reduced the usefulness of management reports produced and compounded the problem of outdated technology ('a pretty crude pre-Windows display of actual against budget passed for a more comprehensive financial report').

Several interviewees pointed out that both improved technology and changes of attitude (to one of "if I put effort in, I will get good information back") are needed. The City Manager emphasised the importance of changing attitudes:

I hope that we will end up having better financial information, not necessarily as a result of the new software but as a result of thinking really seriously and deeply ... we need to convince team leaders and people working at the customer interface that they want this information because this is feedback to tell them they are doing a good job, or how they can do a better job or adjust that job. Culturally one of the things we haven't yet achieved is getting people to want feedback on their financial performance, just so that they can have the satisfaction of doing well and doing better ... I am interested in them wanting to have that information.

The move to outputs accounting, and thinking in terms of output areas rather than inputs was considered useful in facilitating change. According to the Director of Operations:

That move to outputs and what things cost, in particular in the environmental services areas, our cost recovery regimes, what we are achieving – I think that's been a significant plus. And thinking about what services you provide and how you provide them – it's brought home where the real costs are.

On the downside, cost allocation and internal charging were problematic:

The frustration of it has been that some of the measures are a bit crude, particularly where you've got projects that run across units ... and some of these internal charging regimes don't always lead to the best co-operation ... One little example we had ... going and helping units redesign processes. The decision was made that he should be charged out on a consultancy basis and basically the units just dried up on using him. I guess partly because we thought it was free ... and not necessarily recognise the value. (Accounting Services Unit Manager)

There are mixed views about the performance measures. There was a tendency for some to be produced for external reporting purposes rather than internal management:

I think perhaps the first objective was to get a clear [audit] opinion in terms of the non-financials. We started out using the residents' survey as the basis for the non-financials – and we got ticked off about that: 'these are the subjective assessments of a sample of residents, not the objective measures that we [the auditors] expect.' ... So we then shifted the balance and put in a range of things like yes, we did do 65 reports this year and our target was 55. That meant more acceptance from the auditors but it kind of said performance measurement is what can I easily count to put in the report to keep the auditor happy ... What we do with the annual plan hasn't changed materially since 1995 so there is a certain ritual about it ... the role of performance measurement for management, as a management tool or a team-based commitment or involvement as a driver for customer service performance – you know, there are some opportunities that went begging and I think that right now we have to reposition performance measurement. (Information Systems Manager)

Despite reservations about performance information, it can lead to positive change. For example, when Management Information Services surveyed its customers (other units), it was found that there was a high level of dissatisfaction, with only 40% to 50% approval ratings for some of its services. Upon investigation, it was found that the number of computers had increased dramatically but the number of staff to cope with it had not. When MIS unit was given extra staff, the approval ratings rose to 80%-90%.

Overall, financial information is viewed as important in ensuring accountability. As the Director of Operations stated:

All of our outputs, line items, are actually assigned to individuals. We have a line item, we have a name beside it. Accountability, that is how financial information is used, to achieve that line item. The person is going to tell us if you have or haven't achieved that. So that's significant. At some point you make sure that you are able to deliver the costs.

The overall assessment of how well the organisation is managing was also positive. According to the Director of Operations:

Everybody in the organisation knows that they are accountable to produce what is in the budget. And by and large they perform. We had a budget cut last year which has made things harder for people but I think they're managing. I don't think in the council we have to pore over the detail of the financials like in a commercial organisation. It is really a matter of expenditure control ... Everyone in the organisation spends some time of the year on the budget.

Management produce exception reports monthly to standing committees and six-monthly monitoring reports on all activities for the standing committees to carefully scrutinise at special meetings and report to the council as a whole. Elected members expressed a good deal of satisfaction with the aggregate level information presented to them. As the Mayor summed up:

I think the accounting systems here are pretty good. I've been impressed with the reports that come up to Council. They're constantly being reviewed, which is a good sign as far as I'm concerned because it means they're not resting on their laurels. Our finances are managed conservatively. I think that is really important. I think that I have a lot of confidence in the people that run the system.

Conclusion

At the policy level the council has moved from conservatism to innovative and forward-looking strategies which are supported well by good quality financial information and long term financial plans. External communication with stakeholders is excellent. The value planning approach aims to link overall strategy with operating activities of individual managers and teams.

Within the organisation, the leadership and coaching programme, aimed at changing the culture of the organisation, is widely viewed as the most significant change so far. The challenge is to provide the accounting and information systems to match it and to link to the policy/strategy level. Yet, pervading all attempts to develop strategic capacity, is the consciousness of financial constraints. At neither managerial nor political level is it acceptable to 'raise taxes'; any managerial initiative has to be at least cost neutral and preferably cost reducing.

The council is attempting a complex task. It appears to be trying to retain the best from the sort of results-oriented management that emerged during a period of command-and-control while also taking a more flexible and participative approach to cope with a rapidly changing environment. This is not easy, since there are some inherent tensions between approaches based on accountability/results and those based on developing strategic capacity. There are not many models to draw on in terms of combining the two and the council seems to be inventing its own. It requires the organisation to focus simultaneously on changing systems and changing people. People can change with better systems (including accounting and information systems) but changes in people are needed to make systems work well. Not surprisingly, it is easier to focus principally on one at a time. If institutional memory can be preserved, then over time both these 'cultures' and their respective supporting systems can be developed.

CHAPTER THREE

HENDERSON CITY COUNCIL

Henderson City Council is responsible for local government matters in one of Scotland's largest cities. It is the major employer in this city with c.17,500 employees. Henderson City Council has elected members from all four political parties (Labour, Liberal Democrats, Conservative, SNP) but is dominated by Labour. Its revenue budget is c.£551million. As part of the reorganisation of local government in Scotland, Henderson City Council was created from 1 April 1996 as a unitary council which assumed responsibilities of the former District and Regional Councils which had had responsibility for local government matters in this city, as part of the then two-tier system of local government.

Overview of management changes

The management changes within Henderson City Council were made against the background of diminishing financial resources. In the first two years of its existence, Henderson's funding was reduced by £33-£35 million *per annum* or 7-8 per cent of revenue expenditure. Henderson also sustained further, but lesser reductions in financial support from central government of c.£40 million over the third and fourth years of its life.

When Henderson City Council was first established it recruited almost all of its senior officers from the Regional level of local government in its area, with the former employees of the previous District council in the area being appointed to less senior positions. This circumstance has had the effect of maintaining two separate organisational structures and inhibited pulling these two cultures together, according to senior managers at Henderson. The financial constraints of Henderson have

intensified this dichotomy, with the previous staff of the former District Council blaming the present senior staff for budget reductions.

The major management changes initiated by Henderson were as follows:

- a reduction in the number of front-line service departments;
- the promotion of a 'cross-cutting' approach to policy and service delivery to avoid departmental compartmentalisation;
- a flatter organisation structure, achieved by the elimination of middle to senior management posts;
- a greater focus on partnerships with stakeholders (local employers, citizens); and
- a shift in thinking from service provider to facilitator of services.

The first move of the new senior management of the newly created Henderson City Council was the reduction of the number of service departments from 16 to eight. This action plan eliminated 30 middle to senior management posts and saved a recurrent £1.5 million on revenue account. The implementation of this plan was in accordance with a corporate policy to minimise senior management and maximise grass roots involvement in operational activities. Another facet of this restructuring was the cross-cutting policy of Henderson City Council. There are many examples of this. In childcare, a more holistic approach to care is being sought, so that educational needs, social needs and emotional needs can be met by professionals under one roof. Also, building maintenance work by the Direct Labour Organisation (DLO) based within Housing Department now provides a contract service to schools, police, fire authorities and therefore has a much broader base than council housing. In general, there is a more corporate approach with Housing, Education, Economic Development and Social Work matters being considered together. In the implementation of these policies, Henderson City Council describes itself as a progressive local authority, which will not be tied down to traditional in-house provision of services. There are significant examples of the way this thinking has

shaped operations within social work, which now has a much stronger emphasis on community based provision of services. One outcome of these changes is that the emphasis of the Director's role has changed – there is a greater degree of accountability, of scrutiny of his/her actions and a more corporate approach to services. Within this new management framework, Henderson City Council has set itself ambitious targets in the provision of excellent public services, the highest quality of life for its citizens and in providing a strong civic leadership which enhances this city as a cultural and economic center for the local economy and beyond.

In these developments, the impetus given by the financial constraint of declining contributions from central government was important. However, these manifestations of change also embrace a continuity of policy over many years as advocated by experts who sought to make local government more responsive to its stakeholders and less bureaucratic (see, for example, Hadley and Young, 1990).

The relationship of the elected members and the permanent officers of the Henderson City Council is captured in their joint commitment to modernise their methods of operation. There is a consensus that the traditional committee structure of local authorities has had its day. It is regarded as an ineffective way of both making and scrutinising decisions. Instead, at Henderson there is a cabinet-style of operation. There are a group of senior members of the elected council who have specific policy responsibilities for given areas of the city council's authorities and who act in concert in determining policy. Elected members of the city council who are not members of this 'cabinet' are regarded as back benchers, in a manner similar to back bench Members of Parliament. The 'cabinet', in effect, takes the decisions and sets out policy and this is approved by the 'back benchers'. However, this cabinet style of local government also facilitates a closer working relationship with senior management, in which accounting information and financial constraints help to shape policy. The specific mechanism to which this refers is the Best Value Budget Review group. This group initially had the remit of overseeing the budgetary process, on an annual basis. However, with the advent of

the Best Value agenda, the remit of this committee has widened beyond matters of resources and finance.

Henderson City Council operates in a city which has a strong tradition in recent years of collaborating with private sector enterprises. This strategy has entailed the establishment of a local enterprise company which has the objectives of finding resources and links with the private sector. The Henderson City Council is an ardent supporter of the government's modernisation policy through partnership. This policy has been influenced by the need to seek new sources of funding. This applies across the range of the city's policies, including the regeneration of identified priority areas and the delivery of major new initiatives. Henderson City Council has sought funding, with some success, from initiative funds and from Europe, which has resulted in obtaining funds for improved transport links to outlying areas. This policy, of positioning itself as being responsible for service procurement rather than just service delivery, has been brought to fruition by a series of partnerships with a wide variety of service providers. Examples of this include the transfer of all sports and leisure services to a separate trust, and the provision of 44 per cent of social work services by external agencies. An important element of Henderson City's partnership strategy is its involvement with voluntary organisations. This includes both the funding of voluntary organisations (at £23 million *per annum*) and liaising with voluntary agencies by the establishment of a formal liaison group of senior members of Henderson City Council and the representatives of voluntary agencies. This working arrangement is facilitated by Henderson City Council's cabinet-style government, which is also seen as the best way of involving citizens and being responsive to their needs. One example of this is the expenditure of £75,000 by Henderson on a consultation exercise with citizens on services.

Accounting and information systems changes

There are three distinct strands to the changes in the operation of accounting and information systems at Henderson City Council:

- the changing role of the Director of Finance;
- the constraint of this council's IT systems; and
- pressures to extend information beyond the conventional financial data set.

Changing role of the Director of Finance

While it is recognised that the Director of Finance is a very important member of the senior management team and of the Budget Review Group, his position is not one of 'unassured dominance, like it was in the past' (as the Director of Strategy at Henderson City council, puts it). In part, this is a function of the fragmentation of the finance function on a number of levels: the variety of funding sources has increased beyond revenue support grant from central government to include special initiative bids, joint financing arrangements, the purchase of previous in-house provision under contract, and Private Finance Initiative/Private Public Partnership financing schemes. One impact of this variety of financing sources is the way in which these large planning initiatives are not necessarily finance led, although finance would be a part of any team established to initiate and oversee such initiatives. Also, with the flatter management structures and more devolved structures with delegated financial responsibilities, there has been a relocation of financial staff from the finance department to these operational units, thereby spreading financial expertise. As a consequence of these changes there is a much higher quality of debate between the Finance Director and the service directors.

Constraint of Council's IT systems

The quality of IT systems supporting the finance department, however, is a significant constraint on the development of accounting information for management. It was mentioned earlier that Henderson City Council was formed by merging two previous forms of local government (the "two tiers" of region and district) and there co-exist

two different cultures within Henderson based on the previous employer (region or district). This dichotomy also extends to IT systems. Both the distinct, separate IT systems employed by the former regional council and the former district council are in use at Henderson City Council. Neither of these systems has a commitment-based accounting system. This situation is exacerbated by competing demands on the future IT strategy of Henderson. The finance department favours a centrally-controlled IT system, to which the operational service departments would subscribe. However, operational service departments, such as Housing, favour a devolved IT system which will meet its needs, with it feeding any 'corporate' information required upwards.

Pressures to extend information

The factors impinging on accounting information must also be seen in the light of the pressures to extend information beyond the conventional financial data set *ie* pressures for a broader range of information to be made available to managers of local authorities. A major aspect of this is the focus on performance indicators. The Accounts Commission, which has responsibility for regularity audit, value-for-money and ensuring best value in management practices as the oversight body for local government in Scotland, has pioneered the development and promulgation of performance indicators for local government in Scotland. This trend has received a fresh impetus from the Best Value initiative, in which the use of compulsory competitive tendering for services has been replaced by the Accounts Commission ensuring management systems are in place to provide quality services and provide value for money. For example, for the finance function, the number of performance indicators has increased from three under the Accounts Commission's original set to c.40 under Best Value. The management implications are two-fold: at the operational level, outputs are measured and used in a more 'customer' oriented way (for example in social inclusion) and, at a strategic level, the Chief Executive has identified key performance indicators with departments to monitor their performance.

The factors indicate the complexity of this issue: the changing role of the finance function; the constraint of the sophistication of IT and the broadening range of factors required to manage modern local authorities. These overlays provide a context for the examination of the use of accounting in management change, considered in the next section.

Role of accounting in management change

The central accounting mechanism within local government is the budget. This is the focus for planning, tax gathering, the determination of finance required, capital expenditure proposals and the prioritisation of revenue expenditure on services. At Henderson City Council, the departments produce annual service plans and Conveners and Directors make presentations to the Best Value Budget Review Group. At these sessions all elements of the budget for each service are examined, with a particular focus on bids for growth and suggestions for savings. This process may extend over four or five meetings, with the explicit objective of making it impossible for Directors to ‘pad out’ their proposals with budgetary slack.

The previous scenario differs from previous practice in this council. Traditionally, budget setting was restricted to five or six weeks of frenetic activity at the end of the (calendar) year, with a budget being struck at the beginning of March and then never referred to again. However, the establishment of the Budget Review Group predates the establishment of Henderson City Council: it was introduced with the former regional council based in this city in 1995. However, within Henderson, this process has assumed even greater importance. It is now an explicit part of the strategic agenda of Henderson City Council. The budget is viewed as a 12 month process. All of this places accounting information, centre stage, in the initiating and monitoring of management change at Henderson. Also, as noted earlier, the use of accounting information by other professionals, as financial expertise spreads, is indicative of accounting information, *prima facie*, stretching deep into this local authority organisation.

Also, there is increased sophistication of accounting information in the presentation of plans. At the Budget Review Committee Group, the service plans are presented with detailed information on sub-service areas on an activity costing basis. In broad terms, activity-based costing is used in a number of fields, for example education and housing. However, the finance department has expressed caveats over the precision of this information, citing it as in a developmental condition. However, this development is yet further evidence of the inroads accounting information is making, and continues to make, in assisting in priority setting and policy making at Henderson Council.

Use of financial information by key decision makers

It was mentioned earlier that the IT systems at Henderson City Council are a constraint on the development of management and accounting information systems. This view was expressed by one service manager who stated that, in his experience:

... the quality of our IT systems are such that our management accounting information is worse than it was before re-organisation.

However, the Chief Executive of Henderson City Council is sensitive to this issue, while recognising existing constraints. In his view:

... (I recognise that) good financial monitoring is difficult to obtain. I am determined that an improved management information will be established in this Council, irrespective of system IT limitations or other impediments.

The major strategy for improving the financial and management information at Henderson has focused on the Best Value development as being very important and it regards itself as being at the forefront of Best Value activity. A central component of Best Value is the council's commitment to reviewing a third of its services (*ie* about 220 service areas) each year, and these are assessed, in a systematic way, against both costs, quality and the services offered by comparator organisations. A

major element of Best Value, which links explicitly to financial planning, is the introduction of three year budgeting to offset the limitations of the traditional convention of annuality, with its tendency to short termism. This is welcomed by the management of Henderson City Council, although the view was expressed that this should be extended to five years, if possible.

The major mechanism for bringing together Best Value information is as part of the budget review process – the Best Value Budget Review Group. While there is general approval of this process, there are, nevertheless, caveats both about emphasis and approach. As one of the senior managers expressed it:

there is still too much of an adversarial component to the budgeting process between service departments and the finance department.
(Finance Officer)

Another dissenting voice in senior management expressed the following reservation:

... It may be that too much time is spent on Best Value instead of delivering the service. (Education Director)

Within the budgeting process, there is a need to focus on cost savings, given the financial constraints of Henderson City Council. A particular difficulty expressed by senior managers was that of budgeting for salary costs. These costs are some 40 per cent of revenue costs, but this is an average, and varies across services. For example, social work has a budget of £135 million with £65 million on staffing costs. A particular difficulty here is that allocations of money from central government tend not to include provision for pay increases which are to be found from so-called ‘efficiency-savings’. This has caused difficulties for senior managers, as the following service director expresses it:

... ‘performance factors’ are staffing expenditure savings which are meant to be gained from gaps between appointments; however, these are set too high, and do not take account of activities like

social work, where caring is still needed, even if there are fewer staff. (Director of Social Work)

Indeed, one senior manager, expressed his scepticism about the currently available performance indicators for local authority services:

... there are so many questions about how meaningful performance indicators are, that one really has to question how worthwhile they are ... (Senior Manager, Housing)

Nevertheless, despite the reservations about process, there are clear examples of senior managers at Henderson City Council putting accounting and financial information to good use, in the discharge of their duties. A crucial component of this is the devolution of aspects of the finance function to the operational services. In Education, for example, because of devolved budgets, over 80% of expenditure is now in schools. However, it is recognised that the head teachers, as operational managers, do not have formal training in financial matters, so a team of assistants helps with reconciling expenditure and dealing with carry forwards. This was reported to work well which is an indication of accounting permeating the lower reaches of the organisation. At the higher levels of the Education Department, this service was targeted for an increase in funding, above that of any other service at Henderson City Council, as part of central government's prioritisation of the education service. The senior managers were confident that this extra resource would be put to good effect, given the merits of their devolved accounting system.

Within social work, major pieces of legislation shape the discharge of duties. In meeting these obligations, social work services can overspend. To address this issue the Social Work Department has a commitments-based accounting system, within the department, for its purchasing budget. It is, however, reliant on the general ledger system of finance department for the monitoring and control of its staff budget. Also, within the Housing Department, there is a local accounting information system to help managers control its finances. This department has two senior managers who provide management accounting information for

the Director and his colleagues. This department feels that there may be some tension with the Finance Department over this, primarily because the Finance Department does not have access to the detail of Housing's financial operations. However, this is yet further evidence of the manner in which accounting information has penetrated this organisation.

Within this schema, there is a recurring message about the influence of constraints of a legal nature on the activities of local authorities. A particular example of this is on capital monies, which are allocated annually by central government. The council can increase these funds by selling land or property, or by using money earmarked for revenue spending. However, discretion to do this is limited, as not all the income from selling assets can be used for new investment. For example, 75 per cent of receipts from council house sales and 50 per cent of other receipts must be used to repay debt and the amount raised from revenue budget is capped. So, there is senior management who do use accounting information and this has spread to the operational levels of the services at Henderson City Council, although the specific constraints, often legal, may shape the manner of its use.

The elected members of Henderson City Council recognise the importance of funding levels as a constraint on their activities. This shapes their use of financial and accounting information. For example, the Convener of one major area of expenditure spoke in the following terms:

... in the early 1980s, Councils were cutting growth expectation in budget, but now they are cutting the actual budget.

However, this process is complicated by the relationship of budgets to policy. It was noted earlier that the Best Value Budget Review Group seeks to prioritise policies of Henderson City Council. However, the alignment of strategies on policy and actual expenditure policies can be elusive. As one Convener, with many years experience of local government, expressed it:

... the financial information needed to show the outcomes of potential policy outcomes cannot be obtained, instead only

information is received about actual policy changes where the outcome was an overspend.

Another Convener was concerned about a different aspect of the quality of financial information:

... when monitoring information, it is not possible to guarantee that figures obtained from finance, or indeed, any Council department, are absolutely accurate.

Nevertheless, there are definite signs of elected members making use of accounting information. There has been reference to the workings of the Best Value Budget Review Group earlier, in which detailed budgets are scrutinised. The conveners of the major heads of budgeted expenditure were knowledgeable on the financial position of, and accounting developments in, their particular service. In Education, for example, the department has made its budget accessible to its principal stakeholders. The Education service has 169 cost centres, for a budget of £149 million and the Convener of this service stresses the benefits of budget holders and other interested parties being able to interrogate the financial information held at cost centres. Also, in Social Work, the Convener was knowledgeable on his budget: the tightening of his budget from 1994 (which predates the formation of Henderson City Council, and when Social Work was a regional council service), the under funding of the service and the escalating demands upon service provision eroding his department's budget. Furthermore, within the Best Value budgetary process there has been a shift from the traditional annual budget to a three-year budget plan. This has been welcomed by elected members, although interest was expressed in extending this further to four or five years. A major factor in this is the need for a more considered framework for evaluation - as the Convener of one service remarked:

... pressures on management for performance plans and performance targets, right through to every single department, is incredibly difficult to manage.

This was a statement about the need to avoid a short-term perspective in such evaluations.

Conclusion

Henderson City Council has undergone significant change: its very existence as a merged entity from two former local authorities which had existed in the same geographical area, but with vastly different formal responsibilities and styles of management, are testimony to this. However, in addition Henderson City Council has had to address the twin pressures brought about by financial constraint and new central government initiatives which seek to make local authorities substantially different in the manner in which they function.

Within Henderson City Council, the senior managers and the elected officials have a shared vision of how this council should provide services in the future. A major part of this is a shift from the traditional committee based structure of local authority governance to one of cabinet government. In addition, Henderson City Council is a modernising local authority: it embraces the policies of establishing partnerships with major stakeholders, is shifting from a provider-oriented to a purchaser-oriented authority, and it is a keen advocate of Best Value as an approach to local authority management.

The overall impact of accounting and financial information is conditioned by two main influences: continuing downward pressure on available finances; and the placing of accounting information, centre stage, as part of Henderson City Council's budgeting review procedures. There are constraints to the effectiveness of this (notably the complication of differing and dated IT systems and legal constraints which can reduce flexibility of operation), but there is, nevertheless, evidence that management at Henderson City Council does use accounting information (with other information) to inform its actions and that this has penetrated to the lower, operational levels of management, too.

CHAPTER FOUR

JOHNSTON CITY COUNCIL

Johnston City Council has a significant majority of elected councillors who are members of the Labour Party. All other major political parties are represented within the elected members. This council has 8,000 employees. It has a population of 150,000 citizens. At the time of reorganisation this council lost some 17,000 members of its previous population from an affluent part of the city. This is a factor in the make up of this city, where there is considerable deprivation. The Johnston City Council has a declining population with high proportions of elderly and poor citizens within its boundaries. Johnston City Council has high levels of local taxes: a reflection of the demands on its services.

Overview of management changes

Johnston City Council describes itself as a modernising local authority. It maintains that it is the most innovative council in Scotland, and that its actions and plans are ahead of central government's policies on the modernisation of local government and Best Value. The Johnston City Council has placed economic development as its number one priority, in an attempt to redress its declining population and high unemployment. The major effort of this council on the 'partnership' front has been with key organisations (local health board, local enterprise company, local chamber of commerce) with a view to securing money and resources. This is a major motivating factor at Johnston. In the first two years of its existence, Johnston City Council had a £26 million reduction in its £200 million budget. It attempted to recoup the loss of £26 million in each of these years with increases of 13% in local taxation, *per annum* for two years, but it had difficulties with tax collections.

Against this background, Johnston City Council was forced to make tough decisions on service reductions (school closures, social work cuts) in the first year of operation. This saved £18 million recurrent revenue expenditure. In addition, Johnston City Council rationalised its activities in less high profile ways, savings in administration, organisation, some cuts in funding of schools. These took place mainly in the second year of the cuts. While the first two years of its existence were extremely significant in terms of the size of the cuts, subsequent years have resulted in (lesser) continuing reductions (*c.*2% in real terms, as typical).

The new Johnston City Council set out to make significant changes in its management. These were to include:

- a smaller bureaucracy for quicker action;
- downsizing of layers of management;
- increased openness and transparency; and
- changes to the culture of management.

However, at reorganisation, Johnston City Council had 200 officer posts in the council which were filled with 200 staff from the former regional and district councils. There was no restructuring of departments, transfers of services between departments or committee changes, initially.

When Johnston City Council was confronted with the cuts in its budgets, it addressed the issue of restructuring, partly to save costs and partly by design. In the main, Johnston City Council initially maintained the management and structure policies of its District Council predecessor. However, there were changes implemented. One such change was giving Directors of services corporate responsibilities and actions to work on, not necessarily in their own department. Also, within the different departments the second tier of officials below Directors were empowered. They were categorised as 'Managers' and given responsibility to run services. This by-passed the previous system of having Depute Directors as key policy makers and implementers.

The Education Department slimmed down from 15 – 20 various types of Directors in the previous (regional) local authority, to a Director and four Service Managers. This downsizing, with flatter management structures was reported to be resulting in a lot of pressure and stress on managers in these new roles. Within Social Work, there has been a major focus on enhancing the management roles of lower levels (2nd tier) of management. However, while the Director of Social Work is content with this approach, there appears some scepticism about the extent of this empowerment at the lower levels of management, in particular because the amount of devolved budgeting has not been significant.

Within the elected members of Johnston City Council, there has been an acceptance of the need for change. One significant example of this is the adoption of a cabinet-style government replacing the traditional committee structure. To make this work, there has been a great reduction in committee meetings. Instead, Johnston City Council use small working groups to address specific policies of strategic importance with defined remits and timescales for reporting. The cabinet of conveners make the real decisions on policy at Johnston City Council. This provides a very clear political direction for the managers of Johnston City Council.

One particular impact of the reorganised style of governance is the manner in which there is a greater emphasis on co-ordination of the work of departments to achieve ‘cross-cutting’ policies. One distinct aspect of this has been the creation of a multi-function Neighbourhood Resources and Development Department which focuses on the needs of communities. There have also been major attempts at the co-ordination of activities, of Social Work, Housing and Education, on joint bids for resources. However, within the council, it is recognised that there remains work to be done on improving structures within lower level and locally-based services. There remain some tensions between the different services: for example, the favoured budgetary status of Education, as a result of government policy, following on from the substantial savings which it made in the early years of Johnston City Council, has caused some resentment within other departments. The Corporate Planning

Department was given the role of overseeing, and refereeing competing demands between the various departments for resources in this environment of financial constraint.

Accounting and information systems

The Chief Executive of Johnston City Council has given the Director of Finance a clear directive that:

... he should mainly focus on management information.

The directive has been accepted by the Director of Finance. In his words:

The historic (sic) role of the Director of Finance was on the stewardship of public funds, but now there has to be more emphasis on the financial implications of policies.

While the re-positioning of the priorities of the finance department has taken place, there have been other changes implemented to improve the effectiveness of accounting and financial information at Johnston City Council, notably on IT systems and there have been moves to devolve accounting systems, but this is still at a developmental stage.

Regarding IT systems, the Johnston City Council had inherited three different systems from its predecessor authorities. Johnston City Council had persisted with the former regional council and district council IT systems for the first two years of its existence, but then felt that change was essential. A single financial information system (FIS) was used from April 1998. Its installation was based on expert advice (including the external auditors' computing specialists). All the departments had to change their information systems as a result of this: this aspect is taken up further, later. The FIS consists of a payroll system using the former regional council system which has been integrated with a new general ledger system. However, the finance department retained the existing costing system which was devised for Direct Labour Organisations and Direct Service Organisations.

The finance department has also placed an accountant from its department in each major service department, who spends 2/3 days per week there. However, this 'outposting' of finance can be seen as developmental. The Education Department, for example, would like a dispersed, devolved financial system based in schools, since this department has experienced difficulty in getting information out to schools, and it has also had problems in reconciling the central view and the on-site view. The Director of Finance has expressed major reservations over this development. However, stand alone school based systems have been set up for flexible areas of the budget. However, the in-school system is commitment based, but the central FIS is not. The experiences of the Social Work department are somewhat similar. It goes to the Finance Department first for high-level guidance on finance. It tries to work closely with the Finance Department. The Social Work department has had difficulties with the new FIS. It has found that it is not possible to get the information exactly as it is wanted. As a consequence, it has a separate system within the Social Work Department which provides information on full-year commitments. However, this act is not a criticism of the Finance Department. They have no expectation that a central finance system will provide for the unique demands of all departments.

There are similar tensions within the Housing Department. In this department, financial information is used to control expenditure with the primary aim of avoiding overspends. However, financial information is also used to cost new activities and changes to activities within the Housing Department. The Director of Housing wants to know individual costings, not just global figures, so his own finance people get these figures using spreadsheets. The Finance Department (see earlier) has tried to address the problems of individual departments needs. It has found this a difficult task. It has subsequently gone round a further iteration of discussing with departments' the possibility of tailored interfaces to the FIS, specifically to avoid practices like the re-entering of hardcopy information from the FIS into spreadsheets. So

this – the devolution of budgeting – is a continuing area of development at Johnston City Council.

Role of accounting in management change

Reference has been made earlier to the financial stringency which impacted upon Johnston City Council in its formative years. This influence has been profound, and continuing, as the following statements by senior members of the management team at Johnston City Council illustrate:

... finance has got to influence everything (Director of Corporate Planning)

... now, it is no disgrace to do things, basically for financial reasons (Convener, Education Committee)

... finance is the No 1 determinant (Director of Housing)

Within this scenario of an increased importance and visibility of accounting and financial information, the monitoring of budgets and control has been given a high priority. The budget is the central mechanism by which accounting exerts influence over management change. There is continuity of practice with one of its predecessor organisations – the regional council had introduced cash-limited budgets in 1992, and this is continued, instead of the previous ‘open-ended’ approach to budgets. However, there are also changes within Johnston City Council’s budgetary practices. One major change in the budget-setting process is that members (the ruling group in cabinet) are involved, almost from the beginning. There is also consultation with interest groups (local chamber of commerce, citizens, other stakeholders) which is an innovation. All of this information feeds into priority setting, but the actual priorities for budget cuts are made by the ruling (political) group in cabinet.

The Budget Strategy Group starts in October. It looks at projected information from the Director of Finance (described as ‘guesstimates’)

to produce a baseline budget. From this a savings target in excess of that actually required (*eg* 10% cut in funding when an across-the-board 5% cut is necessary) is given to each department. In the years of severe financial retrenchment (years 1 and 2 of Johnston City Council's life), there was a lengthy, incremental budgeting process, which started in July and continued through to the financial year end of March, the following year. Elected members became increasingly uncomfortable with these long timescales, but were prepared to put up with them in the initial years of Johnston City Council's life. While the availability of finance and the costs of alternative options have been important factors in making budgetary cuts, the actual decisions on cuts have had a strong political element too. This policy dimension has been important in seeking savings from front-line delivery of services. There has also been a shift from 'innovation' to seeking continuous improvement in service provision, which Johnston City Council maintain predates central government's Best Value initiative. Within the budgetary process, there has been a welcoming of the central government's initiative in introducing three year budgets, but some scepticism that this promising innovation will be maintained.

In terms of the ability of costing and accounting information to influence policy setting and prioritisation, there is some unevenness in its availability. The central government's Best Value Initiative advocated the use of ABC for local government services, but in the words of Johnston City Council's Chief Executive:

... the central support services are costed, and this is the only level possible at this stage – we are nowhere near activity-based costing at the moment, but this is a goal.

The Director of Finance has reaffirmed this position, in his view (on activity-based costing):

... the Finance Department has not looked seriously at activity-based costing. It does not want any kind of complicated budgeting since it has no resources for anything like this.

However, there are variations within the service departments which have their own accounting expertise. In the Housing Department, for example, they have attempted to devise ABC systems to evaluate their services. Within Social Work, there is considerable work on unit costing, but not on ABC. However, within Education, there is still traditional budgeting, with no costing of activities, although some preliminary work has been done on the identification of activities as a precursor to more sophisticated costing.

Use of financial information by key decision makers

It was noted earlier that the principal mechanism by which accounting may influence or shape policy occurs at the construction stage of the budget. However, the monitoring process is also an important component of the budgetary system at Johnston City Council. The Chief Executive has signalled the importance which he attaches to this aspect of the Council's business by insisting that Directors of services exercise budgetary control and by holding them accountable. At a monthly meeting of the Directors, all of their budgetary reports are scrutinised. Each department attaches a commentary on their performance to its budgetary report for this meeting. At the meeting itself, only the Chief Executive comments on these reports, interrogating budget holders (Directors) on their cost control.

It was suggested earlier that Johnston City Council has a strong political direction. As far as the use of accounting and financial information is concerned, officers reported that members tended to show more interest in budgets and in spending than in Johnston's predecessor councils. They exhibit a greater degree of realism about budgets and the city's finances. However, within the cabinet, there are differences of approach: the Convener of Education does not claim to do 'hands-on' monitoring of his service budgets, but the Convener of Social Work does. The perspective of members is that the management of Johnston City Council is prepared to act on, and look hard at, the cost of services. This squares with the perspective of the officers of Johnston City Council, which suggests this local authority is moving

to a more corporate culture in determining its plans and priorities. The officers confirm the importance of the political dimension in the resource allocation process. However, there is a convergence between politicians and managers, but with other complicating factors, as the Director of Education expressed it:

... politicians are on-side and listening which is new; the big problem now is the customers such as parents, when schools are being rationalised.

In general, elected members reported an interest in 'headline' figures rather than detail. The conveners of the major services examine their budgetary reports and find that their finance and management colleagues are responsive in providing any more detailed information required. The Leader of Johnston City Council expressed satisfaction with the current financial information system in discharging this function and commented on the general situation as follows:

... local government finance is 'relatively straightforward from the members' point of view'; in fact, ideally members would just be involved in strategic matters. However there is a need for some financial knowledge and responsibility.

This differs from the management perspective, which reports more follow through in considering the costs of plans, compared with the practices of predecessors authorities and the manner in which cost consciousness is filtering down into the depths of the organisation.

However, in being confronted with decisions, key agents (both elected officials in the cabinet and senior managers) identified constraints, in particular they expressed reservations over the shift to performance indicators as management tools. This was not a criticism of the idea of performance indicators: more a statement about the difficulties of measuring outcomes in certain areas, for Best Value purposes, and the crude nature of current performance indicators. The Best Value agenda was found to be particularly difficult and challenging in making decisions on key services, such as social work, which are complex and

sensitive, because of problems over the measurement of outcomes and their timescales.

Conclusion

Johnston City Council has made major management changes – the adoption of cabinet style government, the adoption of a flatter management structure and the creation of a multi-function Neighbourhood Resources and Development Department. These are structural changes which have been made in response to significant budget reductions in the initial years of Johnston City Council's life. However, the driving force in these changes has been finance – but this is more a question of the (non) availability of finance triggering policy changes rather than sophisticated accounting and financial management information shaping policy. In the initial years of its life, the Finance Department of Johnston City Council had difficulties over the quality of its IT systems, having inherited three different systems from its predecessor councils. After two years the Finance Department implemented a single integrated financial information system. While this has been an improvement on what has gone before, there have, nevertheless, been difficulties in devolving budgetary responsibilities and information to the operational services. This is a constraint on the policy implementation process at Johnston City Council.

However, within this local authority, there is a consensus amongst senior management and elected officials on the importance of financial and accounting information in shaping policy at Johnston City Council. The principal mechanism for this is the Budget Strategy Group which prioritises the rationalisation of services. This group uses accounting information in setting its agenda. However, there are limits to this. More sophisticated costing, for example, is in its infancy at Johnston City Council with few departments making developments in ABC. Furthermore, the new Best Value agenda for local authorities encourages further development in management information systems, in particular, the use of performance indicators. However, at Johnston City Council there is a fairly sceptical view about the validity of currently available

indicators, particularly for complex activities such as social services. Nevertheless, despite these limitations, there is an overall picture of the ascendancy of accounting and financial information as instruments involved in policy making at Johnston City Council.

CHAPTER FIVE

RATA DISTRICT COUNCIL

Rata District Council has a physical area of 17,500 square kilometres and a population of nearly 40,000, half of whom live in its main centre. There is a second town with a population of approximately 4,500 and five smaller towns in an otherwise rural region whose economy is based mainly on farming, forestry, viticulture and tourism. The Council was established in 1989 through the amalgamation of one county and two borough councils and became a unitary authority, with regional as well as local powers, in 1992. It has an annual expenditure of approximately \$40 million and employs around 170 staff. Amongst district councils, it is averagely wealthy. However, with a large area to service and a low rating base the council feels under constant financial pressure. This is exacerbated by the very high costs of river control, extensive resource management responsibilities (greater than most because of its unique marine environment), damage to roads by forestry trucks, and the withdrawal of central government funding for community services. The financial pressures mean that Rata District Council feels it has no choice but to concentrate on those activities that are required by legislation: infrastructure and regulatory activities.

Overview of management changes

As with most councils in New Zealand, central government legislation – especially the Local Government Amendment (No 2) Act 1989, the Local Government Amendment (No 3) Act 1996 and the Resource Management Act – has been a major driver of change. Rata District Council has a reputation for responding quickly and positively to central government initiatives and for being supportive of central

government philosophies aimed at improving economic efficiency in local government.

The council has had one Chief Executive (previously the General Manager of the parent council) and three mayors since 1989. The present mayor was elected in November 1998 along with twelve new councillors in a hotly contested election where the council's restructuring and review of functions were major issues of controversy.

Many management changes at Rata were a consequence of legislation. Thus, the first significant change following the initial amalgamation was the contracting out of road construction and maintenance in response to the Transit New Zealand Act of 1989. As a result the number of staff directly employed by the council was significantly reduced although employment remained within the region. Rata District Council was the first council in New Zealand to undertake such contracting out and believes that being first reaps most benefits in terms of competitive prices and cost savings. It also believes that shedding operational activities can enable a council to focus more on policy. In 1992 Rata District Council became a unitary authority combining both territorial and regional council functions within a single agency.

In November 1994 the council commenced a comprehensive revenue and rating review. A discussion document was issued, seeking public comment on the 'principles and processes' to be used for the review and detailing existing and proposed user charges. A wide range of funding options were examined in the consultation process and in July 1997 the new rating system, aimed at more closely reflecting services and benefits received by each benefit group, was introduced. Thus the council had already met the requirements to produce a funding policy by the time the legislation took effect in 1998.

The new legislation requires councils to fund the loss of service potential or depreciation on infrastructure assets as from the 1999/2000 rating year. This creates additional financial pressures. As the council did not consider increasing rates to meet these costs was a sustainable option, it undertook a major review of service delivery options and of its management structure. Depending on the function,

service delivery options that were considered included: contracting out, franchising (retaining ownership but allowing a private organisation to operate assets for a long period), stand alone business units, council management/operation, divesting, metering of water systems and selling shares in commercial companies. Rata District Council has since managed to contract out a number of core services (including management of its property portfolio, dog registration, monitoring and inspection services) and was one of the first councils in New Zealand to make the Government Valuation Services compete for its business. It has also found innovative structures to take best financial advantage of tax (commercial holdings) and central government's accommodation supplements (pensioner housing).

Rata District Council introduced a new management structure in mid 1998. This reduced the number of managers reporting to the General Manager from five to four, and rearranged the departments from operational lines to accountability-based areas. A Forward Planning Department was created, signalling greater emphasis on the need to plan for the long term future of the District and all the council's service delivery functions were brought together, enabling economies to be made. A Customer Service Centre, providing the public with a 'one-stop shop', opened in 1998 with the aim of having 80% of inquiries dealt with by the customer service officer first contacted by the member of the public. It was expected that the reduction in referrals to other sections would improve customer satisfaction.

Accounting and information system changes

As in local government throughout New Zealand, the accounting requirements of the 1989 legislation were the main driver in reform of accounting. Rata District Council was well prepared and moved on to accrual accounting immediately. Apart from roads, all assets were already recorded on asset schedules. Prior to amalgamation, the Treasurer had placed the financial information of the main borough and the county on a single computer system, as a joint venture.

The accounting staff have put a considerable amount of time into the allocation of overheads. They started with a very sophisticated 'designer model' of overhead allocation (a bottom-up, stepped ABC model). This has since been replaced with a system that was easier to understand in the light of staff becoming accountable for all their costs. However, care needs to be exercised in changing the cost allocation model because it also impacts on agreed rates and charges which are now based much more closely on the costs of each activity or piece of property.

In the past, information systems had largely been the responsibility of accountants because the initial focus of computer technology was to provide financial management information systems. In recent years the emphasis has changed and computerised systems are used in all areas. In 1996/7 the council replaced its old technology with a relational data base and, despite not wanting to be the trail blazer and have to solve all the problems first, were one of the first councils to move to the new system. The new Government Enterprise Management System (GEMS) is a local government system and not just a financial system.

Procedural changes have also been implemented in tandem with the new computer system. There has been devolvement of some functions to the departments, for example, payment authorisation. Payments are made closer to the originating department, thus reducing the volume of paper and the extent of double handling.

Managers receive monthly reports which come out 3-5 days after the end of each month. Also, managers have on line access to the corporate database and are able to tailor information to their own needs. There is a major push to getting individuals to take proper ownership of the quality of data for which they are responsible. A motto constantly used is 'Information should be as sharp as A CAT': Accessible, Consistent, Accurate and Timely. With fewer staff numbers and pressures on time, the danger is that people will rush and not check the accuracy of their data or forget altogether to input new data or advise others of changes.

As well as improving accounting information, new computer systems enable faster communication with tools such as e-mail and electronic calendars widely used. The council refers to 'network

computers' (NCs) rather than 'personal computers' (PCs) to encourage the notion of information sharing. The IS department does not have a large staff, preferring to use outside contractors and consultants as appropriate. Departments are encouraged to stand on their own feet in the use of technology. To facilitate this, there are internal training seminars, outside training customised to the council's requirements and user forums in particular areas such as spreadsheets and Geographical Information Systems (GIS). In these forums, users share what they have learned (such as more efficient ways of using the technology), swap ideas and identify challenges and successes. This shared knowledge becomes a corporate resource.

Under the latest restructuring into four departments, corporate services such as financial services (accounting) and information services have been absorbed into the new Customer and Community Services Department which services both internal and external customers (the other three are Forward Planning, Assets and Projects, and Regulatory Department). Financial Services will continue to provide budget information and financial reports, and carry out financial modelling, but will not be responsible for the overall production of the annual plan or the long-term strategic plan. These are seen as being much more than financial information and are located in the new Forward Planning Department.

The management restructuring has meant a lot of additional work for the accounting staff. According to the Chief Accountant:

You have to throw away everything you have done before and start again - staff restructuring, the budget systems, the accounting systems, the recording systems, you have got to look at it all. We have had all those things in a very short time frame. I guess the Council would see themselves as trial blazers but you won't make a success of it if you try and do everything all at once. There are so many irons in the fire at the present time.

The information systems manager likewise mentioned the additional work he faced as a consequence of restructuring:

Pure changes in structure have a big down stream effect because we try to keep in step with the organisation and sometimes you wonder whether it is worth it. But I think it is because if we take our paper filing systems, which really haven't changed since old county and borough days, they are completely out of step and people only find things from head knowledge about what file it might be in ... in contrast to that, in IS, every time the structure changes we have changed the structure of all the IS files to match it ... a mirror, of the organisation.

However, the restructured IS gives staff a better idea of what goes on around the organisation. Because IS and the network permeate the organisation, they help build a team ethos.

Role of accounting in management change

The accounting staff were heavily involved in the calculation of costs for the revenue and rating review. They developed costs for every single activity and every single residual rate requirement. The Chief Accountant described the process as follows:

In the old days it was totally arbitrary ... some magic formula ... either it evolved or it came from the former authorities In 1995 we did some more work, we actually did the numbers for the allocations. We had public meetings that would take people through the issues. One of the hardest issues was the subsidisation from investment income and how this was to be shared. There is no right or wrong answer.

Costing information had become of paramount importance. Indeed, information on costs is used in the process of exploring options for service delivery:

The first step in each service delivery review is to understand the activity, why we do it, and understand the costs and cost drivers. We look at why we perform each task, whether it is in terms of compliance with legislation or whether it's customer service or

something else. We have a methodology for reviewing functions but it takes a long time to do each review. We look at the financials of it, do a proper assessment of the actual hidden costs or overhead costs so we really get inside what that function is, how it operates, where the issues are, what sort of user charges we currently have, what sort of income streams, basically how they are calculated - quite a comprehensive review We then look at it in terms of options. We look at contracting out some of the prime or core functions. If we start looking at things like water and sewerage, we are looking at franchising, selling concessions, those sorts of things. (Chief Accountant)

Calculation of overheads, and distinguishing them from what are actually direct costs, is a significant issue in analysing costs of services. Several managers commented that large savings may only come if significant chunks are contracted out:

We identify the direct costs and then work through the overhead costs. But the overhead costs are always hard because in terms of corporate overhead these are essentially fixed; the variable component is not actually that high You actually have to contract out very significant parts of the organisation before you actually remove some of those fixed overhead costs.

It's important to understand the cost structure of a finance, both fixed and variable Generally if we are contracting out we find quite a few competitors come in somewhere near where we are [but] unless you do a big chunk you are not really going to knock the overheads.

As noted earlier, the requirement to fund depreciation creates financial pressures which are a major impetus for change. Furthermore, there are some reservations about the effect this may have on decision making in councils in general. A senior manager expresses the following opinion:

In my view one of the dangers of the Act is it is trying to make provision for funding depreciation but you may well find that the councils actually spend that money on other assets because depreciation funds can be used to buy any assets so it is not necessarily targeted at capital replacement. You may find some councils actually increase their asset base and keep spending money that they are putting aside from the existing asset on new assets – extending their asset base and to an extent that at some point in the future they are going to be in trouble because the depreciation keeps climbing We get quite a lot of pressure on improving the social and community facilities ... when people see funds accumulating within Council it is very hard to say well there is no money to be able to afford these things.

The No 3 Act has encouraged the development of a longer-term perspective by both elected members and staff. Although its emphasis is on long-term financial planning, it starts to raise questions about strategies in a much broader sense. According to the Manager of Forward Planning, financial planning is quite good at projecting out existing activities based on existing assumptions but key policy questions need to be considered if a genuine strategic approach is to be adopted. That is, the long-term financial plan cannot be a substitute for a strategic plan. As the Manager of Forward Planning put it:

[The budget] will be another document, it won't have strategy in it – it will just hold numbers. There are quite a few strategies in this document [long term financial plan] in terms of it giving clear signals in regard to investments, what it's intentions are regarding things like pensioner housing, library services, sports/events centres. It is not getting an overall realistic view of what sort of township we are trying to cater for. Are we trying to cater for an elderly population or for a younger population? Is it trying to cater for industry or is it trying to cater for recreation business – those sorts of things. We had a resource management plan but it does not have

a summary of what we are trying to achieve - it does not highlight what our stance is on the environment, for example.

Use of financial information by key decision makers

Operational managers are generally content with the financial information they receive. As one operational manager put it:

I think the information is okay. There are issues such as overheads which are beyond my control and as a consequence of that I don't have a very good answer to [whether it could be improved]. I think that if I felt that the financial performance was really a key focus of my job I would understand things a lot better ...

Senior management have been creating more financial awareness amongst operating managers by placing more emphasis on financial accountability. A senior manager explained:

Managers are starting to get a far of greater degree of accountability. We pushed that as an organisation for change We ask them questions about their variances. We run all the reports each month, have a look through and put a ring around such and such and ask 'what is going on?' Initially some of them sat rather dumbly and didn't know, but over a period of time a lot of managers are starting to get more and more of a picture of their own operations, what their budgetary requirements are.

With the increased emphasis on user charges it becomes more important for all managers to be aware of what their costs are. Improved cost information helps, as this manager pointed out:

Previously there would only have been 2-3 people who knew anything about finances in council and none of the managers had any concept of their own budgetary control or what their own activities cost mainly because all the information wasn't contained in one place, overhead costs, interest costs all that sort of thing.

The discipline of cost - it was never an issue for them in the past. It wasn't very helpful because it wasn't all there.

Another senior manager noted that more financial pressure also helps create greater financial awareness:

We pull down discretionary expenditure they may have had so that probably with tighter budgetary constraints they need a better idea of how much money they have got, how much revenue they are collecting etc, what the costs are ...

The requirements to produce asset management plans, and the service delivery reviews also increases the financial awareness of all service managers. According to the Chief Executive:

[As] people are starting the production of asset management plans there has been a huge drive towards more financial knowledge of local authority business by the managers, engineers and so on. They have been forced to consider those issues in producing asset management plans for aquatic centres, libraries and so on ... the overall service delivery review puts a big emphasis on finances - what we are actually doing, instead of the managers being taken along with that process.

There are mixed opinions about depreciation of infrastructure and whether it makes much difference to the way assets are actually managed. A senior manager comments on some of the issues:

We have had an asset management plan for the last six years and that is common sense but to actually bring in an accounting rule to say you should depreciate, that is a very strange concept for some assets that local authorities are in You look at roading [which] Transfund is basically subsidising ... their income streams don't take into account depreciation ... but we have got to fund that depreciation, you have got to fund the full amount to the total value of the road whether that actually lines up. I sort of wonder about that ...

An engineer's view of depreciation is:

I think that the usefulness of the asset management plan is a lot more in terms of managing cash flows and forecasting the work and the depreciation of the assets as a whole is always going to be quite broad brush.

One of the problems is that for new sorts of assets such as PVC pipes there is no history of their use and is therefore difficult to estimate their useful life.

Ultimately, decisions often get made for political rather than financial reasons. For example, political lobbying resulted in transfer stations being constructed and operated in several areas regardless of cost. The Chief Executive pointed out:

In the private sector all you have to do is improve shareholder wealth, easily done. Every decision we make has got political overtones. The level of rates and the services provided have a political perspective. This might not take into account what is the most profitable action. You mention understanding numbers – elected members do not really want to understand numbers when crunch time comes.

Neither does financial information seem to be used extensively in assessing the performance of management. The view of the Chief Executive was:

I don't think the shape of the balance sheet really comes into it one iota – it really doesn't ... I don't think they look at the balance sheet and say we have done some pretty good things, which we have done.

Nevertheless, despite the fact that decisions are often made on political rather than financial grounds, understanding financial matters can on occasion be seen to have political advantages. During the hotly contested election of 1998, the accounting staff received numerous

requests from candidates for detailed financial information. As the Chief Accountant noted:

We've never had anything like that before. It was the first time ever. Usually they haven't time to pick up the annual report They started going into overhead allocations in some cases. ... Prospective candidates for the last election obviously had to appear to know what they were doing. They were putting themselves through crash courses on what has happened and where their wards were financially because they always find themselves disadvantaged compared to current councillors ...

Conclusion

Rata District Council illustrates the issues confronting a predominantly rural council with a large geographical area to service and a small rating base. In such a context, the approaches advocated by central government, with their emphasis on efficiency, make good sense and Rata has responded positively to central government initiatives. It has been a trail blazer in areas such as contracting out. Accounting information has been an essential input to decisions about rates and user charges or contracting out and in securing financial discipline and awareness in managers. The council takes cost allocation seriously but does run into the inherent limitations that besiege organisations worldwide. Well-designed and well-integrated computerised accounting and information systems not only improve organisational efficiency but they can support a customer service approach and generate a team ethos across the organisation. Accounting is seen less and less as a separate system from day-to-day management.

There is not much evidence that reporting depreciation makes a great deal of difference to the way assets are managed but the requirement to fund depreciation, and the additional financial pressures this creates, does seem to be a major driver for change. To the extent that accounting methods determine the amount of funding needed, they may be important. The requirement for long term financial planning may be

a catalyst in orienting thinking to the longer term but, in the view of Rata's management, it is not a substitute for a more radical examination of strategy that goes beyond projecting what is done now.

The council faces the classic dilemma of governments that citizens demand more services but at the same time resist increases in rates. Equally, attempts to make more efficient use of resources by divesting assets, contracting out or shedding of staff can meet with significant resistance from the public. The problems of obtaining a clear mandate from the community are exacerbated in a diverse, geographically widespread area. Strong decisive political leadership together with effective management are essential. Some of the experiences in the resource management area and new strategic initiatives such as an economic vision for the region suggest that public apathy could conceivably be overcome in the future when a council moves beyond the mundane delivery of services ('roads, rates and rubbish') to more imaginative policy questions. Contracting out operations may even create more 'breathing space' for such thinking. There are also some indications that, given sufficient motivation, elected members can take a significant interest in financial information. Forward-looking long-term plans are already more interesting than backward-looking annual reports.

CHAPTER SIX

McLEOD COUNCIL

This local authority covers an area of 1,307 square km. With 74% of land in agricultural use this council falls under the category of a 'rural' authority. Like most rural authorities in Scotland it is considered to have undergone an aggregating process of organisational change, with the present authority encompassing the remit formally the responsibility of one Regional and three District Councils. This area has a population of 349,300. The Council employs approximately 16,500 staff and has a revenue budget of £382 million. From its inception as a unitary council in 1996, McLeod Council has described itself as a unique, innovative council, with a strong focus on community participation and local decision making and with a distinctive organisation structure and management style.

Overview of management changes

Key personnel in McLeod Council (Leader of the Administration, CEO, Senior Officers and Members) acknowledge that reorganisation was an opportunity for radical change. They were desirous of change and had strong central leadership that was focused on the type of change it wanted to introduce. The leaders in the council acknowledged that change produced a lot of uncertainty so that the greatest challenge would be to convince people of the need for change. Senior members also noted that effective change relied on a close relationship between members and officers. The approach taken was to drive change through the organisation, to push through this new vision of the council. Once that had been done a more collaborative approach could be taken. So the approach was to create the vision centrally, then solidify it into the organisation collectively, or as one council member expressed it:

I think it was the type of leadership that was necessary to drive such a change through an organisation, but once you have that in place, you have to be more collective and you have to involve more people.

In getting the change down the organisation senior members found that senior managers were the first to buy into the new vision, followed closely by the front-line staff. It was middle management that showed the most resistance to the change.

The vision which inspired the key agents to implement change focused on breaking down the departmentalism that had built up in the council over the years so that the community agenda could be pursued. The community agenda as identified by senior members was not only tackling the effects of a problem but dealing with the root causes of a problem faced by the community. The vision itself was an amalgamation of ideas in McLeod Council and New Labour ideas that began to emerge around the time of reorganisation, as expressed by this elected member:

... the ideas I would argue came from the New Labour agenda, but it just came before New Labour was elected to power ... a lot of the speeches being made by senior politicians within the Labour Party, in the couple of years up to the General Election, you see a lot of that at least being attempted to be put into place.

The process of change, and particularly the champions of change, are of interest in terms of this study because it points to a process of change in McLeod Council whose impetus lies very much within the personality of key players during the reorganisation years. Accounting information at the initial stages of change does not appear to be crucial in defining either the timing or the shape of change. The explicit managerial changes in McLeod Council were directed by a desire to move away from the departmentalism found in many traditional councils: powerful departments allied to powerful committee Chairs. The management

changes implemented post reorganisation were targeted equally at structural, processual and contextual levels of the organisation. Of the new *structure* there are three specific innovations which are interesting as moves away from departmentalism: the creation of 'Strategic Sectors'; the development of sub-council 'Areas'; and Localities.

New managerial *processes* in McLeod Council are aimed at greater community involvement in the decision-making process of the council. Efforts to change the culture of the organisation are focused on a set of 'key values', which were mastered to create a 'values led' culture in the organisation. At the inception of the new council five key values of the organisation were announced:

- On openness and accountability the Council committed itself to be answerable to its constituency, to operate in an open manner, to make information on the council more easily accessible and to decentralise services to maintain close contact with the community to which it is accountable.
- Value, participation and involvement of the new authority is its ambition to involve both staff and citizens in the decision-making process of the council.
- For quality and equality of service availability McLeod Council promotes three E's in the delivery of its services: efficiency, effectiveness and equitability, with the adoption of 'equitability' replacing the traditional use of 'economy', in the 3 E's.
- Devolved decision making was announced because the authority believed that this value is important because it offers local communities responsibility and power over their affairs.
- The fifth value, learning and development, is a statement that the council is committed to innovation, and to a culture of learning: to change where the *status quo* has failed to deliver the four preceding values

A mixture of devolved, flatter management and overlapping areas of responsibility has been developed by McLeod Council to produce

a matrix-style managerial structure. The two key innovations in this structure are the role of Corporate Managers and Area Co-ordinators.

Corporate managers

Corporate Managers are responsible for 'corporate sectors'. There are three Corporate 'Sectors' in McLeod Council, each made up of a number of traditional services. It is mainly a strategic role linking the corporate policy centre (usually the CEO's Office) and front-line services, whilst simultaneously blurring the distinction between services; as the Director of Strategic Planning put it:

... try and develop a ... strategic approach to service delivery so that services are seen to be very much working together in tandem at the point of delivery.

Area co-ordinators

McLeod Council is split into three geographical 'Areas', these are the responsibility of Area Co-ordinators. The Areas are broken down into localities - of which there are 23. The role of the Area Co-ordinator is to complement the integrated service structure with a locality focus at a strategic level. At the inception of the authority the Area Co-ordinators played a large role in pulling the organisation together. Their aim was both to communicate the leader's vision and to ensure that people began to work more closely together.

At an operational level this matrix structure presents certain complexities which arise from the overlapping areas of responsibility. One of the problems that can arise when the Geographical Areas and the Corporate Sectors are not synchronised is that middle managers in the services become pulled in different directions: trying to satisfy both the corporate and the locality interests. The confusion that the matrix structure presented to some middle managers with respect to lines of responsibility and accountability gave rise to the perception by some that the Area Co-ordinators were a threat to the services.

The position of Area Co-ordinator emerged from the structural changes at reorganisation with the intention that this post be reviewed during the lifetime of the administration. It is part of the new council's culture to encourage feedback on, and further possible changes to, management initiatives. However, there is a need at the service level for stability. Therefore the strategic centre needs to get the balance right, between keeping the organisational structures, processes and culture responsive to the demands of the constituency whilst providing the lower level managers with the continuity and stability required to deliver services effectively. Senior officers in McLeod Council have noted that service managers are working more closely with a wider range of managers in other services as a consequence of the new structure. The new processes involve a major focus on communication and Best Value.

Communication: team briefings and localities

One of the management processes which supports the new matrix structure is the 'team briefing'. Although the 'team briefing' is not a new concept it has acquired a new role in McLeod Council. An increase in frequency of meetings and a more informal environment has endeavoured to make these briefings two-way conversations between management and their staff. Management find that these briefings can now be vehicles for discussing and discovering new ideas, as one senior manager describes it:

They're about not just the arrangements of the services, they're about people bringing their problems to a central discussion point where they can help each other solve different problems. (Director of Corporate Strategy)

The greater openness and involvement espoused *within* the council is mirrored in the relationship between the council and the public. An important aspect of the Areas is an interest in developing a bottom up dialogue that looks beyond the strategic centre for innovations. In

terms of strategy, 'localities' encourage and provide an avenue for greater consultation from the constituencies.

Best Value

Best Value is considered, on the whole, to be an opportunity for McLeod Council. An opportunity to question its various activities, qualitatively and quantitatively, to consider value for money, efficiency and effectiveness. As part of the new 'review culture' of modern day management, Best Value is considered a useful tool. Senior Managers in McLeod Council recognise that review processes often highlight areas of inefficiency and lead to the implementation of improvements. However, Best Value and the Best Value process does generate some criticism within the council, based very much on the problems associated with it highlighted by other councils.

The use of reviews as a management tool was known to senior managers before the arrival of Best Value. Officers in McLeod Council point to a number of initiatives that were around prior to Best Value that incorporate the continuous improvement approach that is the objective of Service Plans and Reviews. These initiatives include Investors in People and the guidance of the European Foundation of Quality Management (EFQM). They have all paved the way to McLeod's implementation of Best Value.

It is noted that some of these initiatives are compulsory and that some services are subject to more audits and management models than others. For example, education is subject to:

- How good is our school?
- EFQM.
- Investors in People.
- Her Majesty's Inspectorate for Schools.
- Accounts Commission (Management Modules).

The proliferation of schemes produces onerous amounts of work, to the point that senior officers complain of not having the staff to complete

Best Value requirements. The question that many officers pose is: if all these models are aimed at continuous improvement, why can they not all get together? This is a question that many officers keep coming back to: why is there not more collaboration between all the different bodies to which they are responsible?

There is some confusion amongst even the most senior levels of management in McLeod Council about the relationship between the Accounts Commission's Management Modules and the Scottish Executive's Best Value. Managers have also commented on the lack of support they receive from these two bodies. Where support is forthcoming the teams set up to assist the council are sometimes considered to have little experience in areas of management, and in particular management audit.

A final criticism levelled at Best Value is based on its capacity to initiate change. Management in McLeod Council have expressed their doubts about the ability of the Best Value process, or the Management Model process, to result in significant managerial change. Their worries in regard to this centre around the fact that the completion of Best Value and Accounts Commission Management Modules sometimes requires little more than the ticking of boxes, so that – if management were so inclined – no action would result from, say, a Best Value review.

Role of accounting in management change

The financial management systems in McLeod Council have changed in a number of ways since reorganisation. There are three main areas of change: budgets, monitoring process and information systems.

Budgets

It is noted by some senior officers that the budgetary process in the past has taken too much time. The explanation lies partly in an inability of the members to make decisions over budgetary issues and partly on the fact that the council kept hoping that central government would

increase its budget. As reorganisation settles down, McLeod Council has begun to implement new financial management systems which have improved its ability to control, and hence manage, its budgets.

In 1998 McLeod Council piloted three year budgets in a number of services. Three year budgets are a means of moving away from the annuality-based nature of financial management in the council. An annual budgetary process was responsible for impulse buys at the end of the budgetary year as well as a myopic approach to council strategy and policies. The three year budgets will help with the long-term savings, which the council is trying to achieve. Senior officers in the council note that these changes are in their infancy of implementation and it will be a long time before budgets and policies are determined in conjunction and with the long term in mind, as the Director of Finance explained:

We're not doing policy led budgeting, we're just doing the old fashioned incremental budgeting. And I think it will be a long number of years before we're really making budgets on policy.

A further innovation in the budgeting process has been the introduction of a 2.5% carry forward of the annual budget for each department. This has been welcomed by heads of departments, particularly where the size of certain budget heads is not within their control (*ie* depend on an unpredictable demand for a service). Whereas before departments would have tended to be overly cautious in case of a large demand close to the end of the budgetary year, now they can cover any unexpected costs by carrying it forward into the next year, as this manager explains:

... if you know that you've got 2.5% either way, then you can actually get a lot closer [to your forecasted budget for the year].
(Director, Economic Development)

These changes to the time boundaries of budgets have changed the way that officers and members manage the council. They are more complementary to the strategic facets of new public management. However, in other respects the structure of council budgets continue

to constrain officers to fully develop their managerial capacities. One example is in the way the McLeod Council's pursuit of more integrated service delivery is constrained by the existing budgeting structure. The budgeting structure does not accommodate the new corporate sector structure of the council, or in the words of the Director of Corporate Strategy:

... I had this vision you could take the money from all the different budgets and put them into one new budget ... but that's not how local authorities' budgets work.

Monitoring process

The new budgeting process is an indication of the council's acknowledgment that it is important to align council aims with council resources. However, a council's resources, costs, and aims are not static and so a monitoring process is required to ensure that the alignment is maintained.

In response to the pressure from continued budget cuts, a monitoring system was introduced in McLeod Council so that, within one or two months of completing a budget, senior management would begin to plan for the next budget. Budget monitoring supported by monitoring reports was also employed to keep up to date with the budget process. The effect was to shift dramatically away from the previous culture where the budget was only a concern just prior to its required submission:

... my previous experience ... was that you would only start panicking about your budget three months or so before it ... the budget should be a continuous process. If you're on three year budgeting where you set out your three year budget then you begin to, continually look at bits of it, and monitoring it ... (Leader of the Council)

The new positions in the organisational structure (*ie* Corporate Manager and Area Co-ordinator) with their strategic focus have created a demand for financial information which allows them to monitor the

financial position of their areas of responsibility. For example, Area Coordinators monitor closely financial reports on their Areas, *eg* financial management of rent arrears.

Perhaps the most important factor in the promotion of monitoring is the emergence of the review culture which has given rise to benchmarking and performance indicators. Officers in the Council have commented on the need to produce a large range of indicators for external purposes, but also note that the council's experience and interest in benchmarking preceded statutory obligations. The possibility of being subject to CCT was an early impetus for taking an interest in benchmarking and performance indicators, as this manager indicates:

[Benchmarking] is certainly encouraged ... we knew it was coming round, because you've got Best Value, you can see this was written all over it, but exactly where and at what stage it came from, we certainly didn't wait to be told. (Director of Education)

Information systems

A monitoring process is only as good as its information source. McLeod Council spent the first couple of years post-reorganisation making the different systems it had inherited compatible (remember that this was an aggregating authority). It was only after this that it turned its attention to the task of creating information systems that would support new ways of managing.

Some managers have begun to reap the rewards of an improved information system. They are now informed about the state of their budgets with enough time to move funds between budget heads where one may be overspending and the other underspending. It is also easier to avoid overspend with more continuous and accurate information. These systems will give enough warning so that options can be properly considered before spending decisions are made, long term planning becomes easier because managers have a better insight into their current position, and hence their future needs. This stimulates policy led budgeting.

It is noted by members and officers in the council that in the past the financial information needed to monitor and question the financial implications of activities was simply not produced. Services would either refuse to collect the information or gave excuses. Although the information is now more readily available it is sometimes in a format that is incompatible with a manager's purpose. It is specifically where a manager is interested in a service cost that is funded by different service departments that the financial information format becomes important. It has been noted by officers that there is still room for improvement with respect to access to budgetary information that crosses service boundaries, as one officer expressed it:

... we've a long way to go really in developing the kind of financial information that we need. (Director, Corporate Strategy)

There are two points that come out of this. The first is, what type of information formats are being developed by the finance department, and how do they decide on what type of information is needed. In answer to the first question the issue of ABC arises. ABC is being introduced in some parts of McLeod Council, however officers are sceptical of its utility. ABC is costly and time consuming to implement and many officers fear that there are no tangible benefits that arise from this costing system, specifically where it is applied generically, without appropriate consideration to questions like: what identifiable activities exist in the council, are there strict boundaries? In answer to the second question you would imagine that financial services decide to produce financial information on the basis of its usefulness for management purposes. However, it is noted by officers that they are not directly involved in designing the systems they will use. Officers have not expressed any criticism of this but have commented that they expect that as a response to Best Value the council's financial management reports will become more sophisticated.

Use of financial information by key decision makers

During reorganisation the lines of command over finance staff were modified. All finance staff became directly responsible to the Finance Department and the Finance Director. Finance staff would still work *within* different departments but their accountability no longer rested within the service. This was an attempt to remove any collusion between the finance staff and heads of departments to ensure that proper financial monitoring was developed. The inclination in the past, where staff had considered their loyalty to lie in the service and not the finance department, was for service budgets to be manipulated to the benefit of the service.

The finance department since reorganisation has focused on trying to change the culture of responsibility and accountability associated with the budgets. Essentially, the finance department has encouraged department heads to view budgets as their responsibility: heads of services need to monitor and control their own budgets, and will be held accountable as such. This will not only work to increase the control at the centre but will also give departments a greater sense of 'managing' the budget, as opposed to 'administering', in the words of the Leader of the Council:

That I think is crucial for delivering Best Value. The further you can decentralise the budgets, the more [central] control you will have over these budgets, yet at the same time the more control the people on the ground that have the budgets will have.

A final point to mention here is with respect to the new council structure. As mentioned earlier, the matrix structure introduced post reorganisation presented some problems with regard to lines of responsibility. Where resources are concerned the council has felt it important that there is no complication as to who has the responsibility over council resources. It is important to note in relation to this that Area Co-ordinators have not been allocated independent budgets. The difficulties are expressed by the following conveners of services:

You must have a strong, strong centre in order to have decentralisation that works, so there's key areas, policy areas, financial areas that you must have control of, then you can decentralise the budget.
(Chair, Strategic and Social Development)

Each of the services, under the old system ... would have its own policy development unit, that no longer happens ... (Chair, Economic Development)

McLeod Council at the time of study had a large group of members - there were plans in store to reduce the number of members to improve cohesion. The interests and abilities of a group of people is never homogenous, and it was commented that some members are not good at the strategic level, they don't understand the connections between different strategic policy, and are likely to abandon the strategic aims in a myopic attempt to solve an immediate problem.

The development of Areas has given elected members a greater sense of direction with regard to where issues should be addressed. The Localities or Areas are appropriate for the detailed, local issues, whereas the larger issues can be attended at the strategic level - at the level of the Chief Executive, or the Corporate Manager. Localities also relieve, in a sense, the burden of the everyday decision. The Localities offer a one door approach that can solve minor complaints, rather than constituents having to write to their member. This focus is important in the development of members' ability to think and act strategically, which is increasingly being expected of them, as the Leader of the Council explains:

The powers were there for the Policy and Resource Committee which had the central control, to instruct the committee to bring their budget into line, and people ... would go along to these committees, where there were budgets showing overspends and make it very clear that the committee had to instruct the Head of Service, Corporate Manager, whoever, to come back and show how they were bringing that budget down and bringing it into line. And I think elected members themselves began to accept that

responsibility... Their job is to ensure that it's been, you know (sic), that the proper management tools are being used to manage it ... that was important, and that's the changing role of the elected member, in terms of being able to think strategically.

As members develop their new roles they begin to pick up new competencies and begin to become involved in different authority processes, which changes their demand for information.

I came into government in 1992 ... had very little involvement in the budget process as a member. Since coming into [McLeod Council] its been very different.

However, the budget process continues to be informed by the political framework:

We didn't look at a percentage saving to start with. We wanted to try to do it as a priority ... We didn't come up with nearly the amount of savings we would have come up with under the percentage scheme, but we came up with quite a considerable amount. (Chief Executive)

The net effect of the changing role of the member is that they are very aware of the financial issues that the council is facing: reduced budgets; increasing wages; demands on services; and different forms and sources of financing. However, there is the feeling in McLeod Council that the political imperative continues to be the backbone of the decision-making process. This backbone is constrained and twisted to fit the financial structure of the authority:

The flexibility isn't quite there yet. There is some flexibility, but you've got to vie it from one to another. There's a certain way you've to do things. You can't just say 'Oh, I'll give you that because I'm not using it', it's got to be done in a certain way. And I find that frustrating. (Housing Director)

... instead of having service budgets, I think it would be nice to have sector budgets, for the whole of the sector ... (Co-ordinator)

Conclusion

McLeod Council has made dramatic structural changes. Its matrix management structure, the de-departmentalisation and the flatter organisation structure reveal the intent of its management to implement substantive change. The interviews with key managers and elected officials revealed how different the McLeod Council's organisation and activities were from its predecessor councils. A major focus of the McLeod Council has been in the creation of a new culture within this local authority, by a variety of mechanisms (openness, devolution of responsibility, team briefings). In this regard, this council regards itself as one at the forefront in the development of Best Value policies.

While the management changes have been significant at McLeod Council, the accounting changes have been less far-reaching. This council was among the first to pilot three year budgets for services, which was an innovation aimed at the elimination of end-of-year spending sprees. However, the budgetary system at McLeod has been a constraint on its operations. The new matrix management structure devised for McLeod aligns budgets with services rather than with the new areas sector approach adopted at this local authority. Nevertheless, the quality and frequency of information is generally regarded as effective by key decision makers. There is a greater willingness to act on accounting and financial information. This is evidence that financial information has appeared to permeate this organisation.

CHAPTER SEVEN

MACLAREN COUNCIL

This local authority falls under the category of a 'rural' council. MacLaren Council covers an area of 4,734 square km, of which 80.5% is in agricultural use. This area was under the remit of one Regional and four District councils prior to reorganisation in 1996. The council has a staff of approximately 5,000 employees and had an annual budget of £132.5 million.

This council started life with its budgeted expenditure which was 'capped' by central government as excessive. The outcome of this was threefold:

- more efficiency savings sought throughout the organisation,
- reduction in actual and planned service levels and
- increased charges for services. This initial experience has had a major impact on MacLaren's approach to management.

In terms of the nature of this area, there is no single dominating town but rather nine small town centres with unique and strong cultural identities. This area has experienced many of the difficulties faced by rural Scotland: declining industries; rising unemployment; and an ageing population.

Overview of management changes

The reorganisation in MacLaren Council was dominated by a number of corporate processes which were implemented to create a corporate unity out of the previous one Region-four District system which had functioned with little, if any, inter communication and co-

operation. The management changes in MacLaren Council are the product of three corporate processes:

- corporate strategy;
- service challenge; and
- policy and performance management processes.

Corporate strategy

The need for a corporate strategy was considered to be of critical importance at the inception of the single-tiered authority. The political make up of MacLaren Council makes the corporate strategy setting process unique, in that there is no party line to follow. To counter the possible emergence of a weak political culture, members have created a *Leaders' Group* which includes the leaders of all the political groups in the area. It is this group that has taken leadership of the council strategy.

The new unitary structure has released a strong political drive which was absent under the Region - District structure. This drive is centred on an elite group of highly motivated politicians who want to see MacLaren Council develop as an innovative, ahead of its time authority. This group is aware that there is another sort of member who has not grasped the changing role of the local politician, or who do not know how to adapt to it. The Leader's Group will seek to create councillor coherence *via* training and a tighter knit political group (which will require member numbers to be reduced), as the Leader of the Council expressed it:

... we're going to reduce the number of elected members ... We're over-governed with 58 members, and it's not good for the authority ... it's not really what's wanted. It's a modern looking, delivery of a service and I think that we'll get rid of quite a bit of dead wood ... I think you've got to be committed and it's far better with a smaller group of really active councillors rather than a large group, many of which are not active, and I also think in doing that I would want to have a bigger involvement from the backbenchers.

Leading members in MacLaren Council are hoping that these changes will work to produce members who are much more strategically focused.

The emphasis on corporate strategy is a management change which affects members and officers alike, it is part of the emerging strategic management whose 'role emphasis is on strategic thinking, service co-ordination, performance review and crisis management' (Leach, Stewart and Walsh, 1994, p.80). Senior Officers in MacLaren Council have a number of barriers to the development of this strategic self:

- top-down approach in corporate policy development in the Council;
- lack of experience and confidence in the strategy setting process;
- tied up with day-to-day management responsibilities; and
- the setting of strategy by central government.

At the strategic centre there is a vocal recognition of the need for financial information, as the Chief Executive expressed it:

... if people are going to manage the resources they've got in the best way then the financial information they have at their disposal must be the right financial information, useful financial information, and I think we still have a bit of work to do.

Service challenge

One of the central underpinnings of the emerging management style at MacLaren Council is its communications strategy. Communications in MacLaren Council have concentrated on a *face-to-face approach* which encourages *participation* (of both staff and the public). The main initiative through which communications is being developed in this council is known as the *Service Challenge* which is designed to 'help us all to sharpen up on customer awareness skills and give everyone a chance to have their say about the way that services are delivered' (MacLaren

Council, Policy Document). This has had an impact on culture, as the following comments by the Director of Corporate Strategy indicate:

What I think has struck me since the new authority came is that there's certainly a different culture from what I was used to before ... we're probably more formal in our management style than we were prior to reorganisation ... but we contrast that with, I think we're much more open ... we've got a fairly good system of team briefing, which is very much a two-way system of team briefing ...

... I think the other thing is that, I would say we're much more customer focused than we used to be, as a department and as a council.

Policy and performance management

MacLaren Council has Policy and Performance Management Processes which include three year Service Plans and annual Action Plans. The Service Plans are statements by the services outlining the work they plan to do over a three-year period. These plans are prepared within the context of the wider corporate strategy but also has a firm focus on the service's future. The Action Plans set out short term plans with targets and performance measurements to assess the achievement of plans, as the following comment by a senior member of the management team illustrated:

... we're working through these Service Plans and Action Plans, to try to help the departments be clearer about their major priorities and what that means in terms of major activities, and trying to cost activities, we know clearly what it costs ... we can start to test options. More within services than between them. (Director of Finance)

The implementation of Service and Action Plans is part of an effort by the strategic and policy centre to develop a 'learning' culture within the Council; as the Director of Finance expressed it:

... we're not out to change [MacLaren Council] culture just because we want to change [MacLaren Council] culture, but just to keep the management abreast of other ways of thinking about things and getting best value from resources and always in recognition of trying to understand the needs out there a little better, and not to change them for the sake of change but just to be a learning organisation and do the best we can and continually changing a bit.

Accounting and information systems changes

Decentralisation in MacLaren Council has raised an awareness of a need for greater central support and information systems, as the following comments by the Director of Social Work demonstrated:

... the authority has to be much clearer in terms of general guidance to [devolved centres], what its aims are within broad parameters ... and

... [Devolved budget holders] had to have a lot of development of their own skills to cope with [devolved budgets], first of all at a basic level, in terms of the mechanics of the budget, but also in developing an understanding of how the budget relates to their own priorities in developing the [devolved centre] ... And we've had to develop systems within the authority to ensure good management information on the budget.

There are two difficulties with decentralisation in a rural authority. One is that the reducing budgets mean that there are no resources to develop the support processes required: resources are directed towards protecting front-line services, not building in strategy development, IT and AIS capacities. The other problem to decentralisation in rural authorities is that devolved budgets are not necessarily logical where the delegated budgets end up being too small to be practical, as this senior manager explained:

... what's the point of delegating a small amount to an individual [lower-level] manager? I think to get some flexibility and so on

it must be aggregated at maybe one level up, in a small area like this. (Director of Planning and Development)

Members in MacLaren Council generally feel that the authority can benefit from Best Value but that the model of Best Value is still in its infancy – ‘I think the Scottish Office is thinking on its feet’ is how one elected member put it - and although it gives the authority an opportunity to use the techniques developed during CCT with more reference to local needs, it can have a tendency towards shifting resources away from front-line services, as this member expressed concern:

... we should also be mindful that the service we provide is the major thing, and we mustn't divert too many resources into following Best Value. (Chair, Education Committee)

This concern is echoed by officers, in particular where they feel that Best Value is putting a requirement on the Council to duplicate work prepared for internal management purposes, or for other external bodies (eg Accounts Commission and COSLA), as the following comments illustrated:

Sometimes its an irritant because we have to restart the same process to produce 100% to meet that new process, but doing that means regurgitating 90% of the previous content. (Director of Education)

... our feeling was that nobody in the Scottish Office was talking. The Best Value Unit didn't know about this, the Accounts Commission weren't talking to the Inspectors and we're just getting it all and having to do all this work, and maybe doing it three times. But it's beginning to change ... (Director of Social Work)

The Service and Action Plans introduced under the Policy and Performance Management Processes had already introduced a review culture to MacLaren Council. Best Value not only supports this developing culture but has also provided managers with a tool to

legitimise reviews and ensure that a more rigorous approach was adopted in its implementation as a managerial tool.

Role of accounting in management change

In response to the key driver of financial constraints, members are taking greater control over budgets and are becoming more focused and educated on financial matters. A new type of member is developing based on hands-on management: more involvement pre-policy making, more continuous monitoring, more engagement with officer activity. As the Leader of the Council described it:

I can go back to the days when I was Chair of the District Council and the Finance Director and myself and the Chief Executive would prepare all the budget, and at the last minute I would determine what rate I was going to accept, and I'd go into the Council meeting at night and say, I'd give a budget speech, and on the basis of that, I recommend that we approve a budget of £X or X pence or whatever it was, and that would just be approved. Now we start off way, way back, and we have the Leaders' Group looking at where we're going, how they think the budget is going to pan out. We assess what the forward commitments are ... we know about new burdens that are coming along, and we know about certain things we're going to have to do.

Although MacLaren Council has experienced a considerable move away from the officer controlled budgetary processes, there are still members who operate under the former philosophy with minimum involvement in the setting of the budget and interest only extending to ensure that the department with which they associate have their interests safeguarded, as the following comments from elected members revealed:

... the way [the budget] is decided that it should [be allocated] is then worked out by the officials and agreed with [the members]. [The officers] come forward with suggestions. (Chair, Education Committee)

... we're all guilty of this ... you push your own department ... trying to make sure that you're getting a slice of the cake. (Chair, Social Work Committee)

Aside from greater member involvement in some aspects of the budgetary process, financial constraints have also made an impact on council philosophy. Members and officers alike are reassessing their priorities in light of reducing budgets. Senior managers and politicians at MacLaren Council have had to reconsider their position on such things as charging and outsourcing so that what they consider to be local authority priorities can be protected:

We have recently, with a degree of regret, but nevertheless it's addressing the situation, introduced reasonably comprehensive charges, I'm not going to say that they're high charges, but they're comprehensive in as much as they cover all the services we provide. This has helped to generate some income. (Leader of the Council)

... I would say without much equivocation that finance dominates, finance and financial issues dominate ... I really think it is as strong as that because you get into a mind set, and I've seen it with staff, and I do it myself, that if something is suggested very early on in the agenda, it is 'What will it cost?' or 'How will we pay for it?' or 'What will we not be able to do if we do that?', you know? (Director of Social Work)

This concern for cost has also broken down what is often termed 'departmentalism' in local government. Financial constraints require departments to work more closely together to find savings: the result - joint-working - is in tune not only with the financial circumstances of modern day government but also with a flexible, customer focused delivery of service which the council professes to aspire to *via* projects like the Service Challenge, as the following comments from officers illustrated:

There's required collaboration I suppose, and there's spontaneous collaboration. I think we're getting better at spontaneous - when you see a chance take it. (Director of Planning and Development)

... a good example is our joint project with [Department X] ... we've got a project ongoing, designed to [provide Service A] where we share the skills of [their Department] and [our Department], both at practitioner and management level, and it's delivering a hugely successful outcome. (Director of Housing)

... new alliances, new partnerships, and I think some of that is stimulated by the new need to do more with less... (Director of Strategic Planning)

The use of financial information by key decision makers

The financial information systems in MacLaren Council prior to reorganisation focused on administration as opposed to management, as the Director of Finance explained:

Our previous systems have been largely accounting ones rather than managing ones ... in that they've been concerned to make sure that we don't spend out with the limits of the money to be spent and we do it within legislative requirements.

The political faction of MacLaren Council are starting to rely more heavily on data to support decision-making processes and advocacy roles in their relations with external bodies. Information systems to support this requirement for information is sometimes lacking, as the Leader of the Council explained:

I think councillors have got to become much more informed. At one stage in an independent council, the officials more or less ran the show to a certain extent. Now there is much more involvement of the members and I think that's the way it should be, and we should be able to direct and say why we're taking decisions ... You

cannot take good decisions without doing your homework and knowing the background to anything.

... in many cases it's the information base that's wrong ... So, hopefully now we're working on systems that will enable us to have better decision making ... You can't take a decision unless you have all the background information, and you can't monitor it unless you've a system in place to enable you to monitor that budget. (Convener)

As noted earlier, financial constraints along with changing perceptions of citizens' (as consumers) needs have resulted in greater joint working between departments in the delivery of services. Members are finding that their requirement of timely and accurate financial information is an imperative to maximising the co-operation between departments, as the Chair of Social Work Committee explains:

... as one progresses through the financial year, then we know where our overall budget provisions are based on the budgets decision and we can hopefully, with increasing efficiency, monitor how our spend is going, and I'm quite content to recommend to colleagues, and they're quite content to bid and hopefully accept recommendations we vire from one service to another. There's got to be that kind of flexibility to work properly.

There is a case here where better informed, more actively engaged members are using financial information to manage their authorities in face of difficult financial situations. However, no amount of financial information is sufficient to empower members to steer their communities in cases where their autonomy to act on financial information is constrained by the structure of central-local government authority:

... there's a squeeze going on in relation to housing, and Local Authorities can't build because of the cost flow implications of the cost of selling housing on, and so on. They can't get enough consent, despite the fact that the Housing Account is in balance, you can't get enough consent from Government to modernise, or to

build what we would like and we're being pushed in the direction of stock transfers. (Leader of the Council)

The Finance Department in MacLaren Council identified an immediate need to integrate the systems of the old authorities to provide internal control over finances and to improve council responsiveness to its customers. Also, the department has begun to roll out 'commitment accounting' to other departments to provide 'more accountability for budget control and the preparation of the budgets and the controlling of them' (Director of Finance). There is also evidence that the Finance Department is shifting responsibility for the production of financial reports onto individual departments. There is a desire by the Finance Department to impress upon other departments responsibility for their own budgets.

Despite these efforts by the Finance Department, some senior officers are concerned about the quality of financial information. They have expressed a need for financial information to assist in strategy formation, performance and budget monitoring and the decentralisation of decision-making powers. Officers have identified a gap between information requirements and information availability, as the following comment illustrated:

We've got relatively poor financial information ... We don't, for example, have very sophisticated, if any, commitment accounting. We lurch from one year to the other, generally underspending, which is an appalling kind of comment really, because the systems are not in place really to tell the middle managers where they're standing with their budgets and their commitments. (Director of Planning and Development).

Where information is currently being collated and is easily accessible the format in which it comes is not user friendly and therefore either does not direct focus appropriately or is ignored by busy senior managers, as these senior managers explained:

I need a more user friendly scheme. (Director of Education)

I'm so busy there's no way I'm handling [data heavy financial information systems]. (Director of Social Work)

There are two main constraints to the improvement of the financial information provided for management purposes. The first is the financial and time constraints on the finance department, and the other is that senior officers have difficulty in specifying the exact type of information they require to manage the council properly. One of the approaches that the finance department has taken to improve the use of financial information in the council is to provide training for managers who are responsible for budgets, or require financial information for decision-making purposes.

The financial information generated in MacLaren Council under the specification of external organisations (*eg* Accounts Commission) as well as the financial information provided by central government also pose certain problems and constraints on officers' ability to manage their departments to the best of their capacity. One example is in the requirement to produce mandatory performance indicators. Although the benchmarking aspect of Best Value is welcomed by some senior managers, others find that the performance indicators they are required to produce are meaningless as management tools as they do not provide a clear picture of whether a council has performed well or badly.

An issue dealt with in the Best Value report which has been welcomed by senior managers at MacLaren Council is the move towards three year budgeting. Senior officers have identified the annuality of central government funding as being one of the main constraints to long-term planning, as this corporate director stated:

The worst thing about local government is annuality. Working to a financial year, deciding on what the year is going to be, taking the budget, committing it to a programme within the context of what councillors control; spending it and spending it up totally, without exceeding it, by 31 March. (Director of Education)

And as this colleague confirmed:

... I suppose if I have to come down on one side or the other, we do operate at a tactical level, generally on a short-term kind of basis. Beleaguered, I suppose, by annual budget meeting process.
(Director of Planning and Development)

Although Best Value initiatives may indicate an end to the troublesome annuality system other aspects of central government funding are increasing the complexity of management as officers are faced with more ‘initiatives’ funding, where the government provides pots of cash for particular initiatives, as this senior manager explained:

... we are just about to conclude or take a view about, what we called ‘non-core’ funding ... We’ve been debating while we, in the life of this plan, are likely to be confronted with some of these short-term funding kind of deal: how should we respond? And then actually get caught between two things. One, we can’t afford not to take any or every opportunity to get more resources in, even although they are short-term, etc. and maybe not core business, or do we ignore it? And excite the wrath of politicians and others and pressure groups, and special interest groups who say, ‘Well, the government made that money available and you deliberately did not bid for it’, although it might skew your whole time and divert you from the main business ... and we’ve come to a view that what we’d like to think is that we’d subject any future kind of happenstance money or schemes to some series of tests to see if it was consistent with our core business and our longer term goals and that may help us get away from the tactical and keep an eye on the strategic. (Director of Planning)

This reiterates the members’ point about a lack of political muscle to use available funds to pursue the strategic objectives of the local authority where they are at odds with central government policy. No amount of financial information will allow the council to adopt their managerial imperatives where the central-local government structure is balanced on the side of central government.

Conclusion

Management changes in MacLaren Council have very much revolved around a set of management processes initiated at the centre, but with a strong focus on involvement from *all* staff in the council. A major focus of MacLaren Council has been on new procedures to instil a new culture of management, rather than administration. The implementation of new financial information systems after reorganisation mirrors the holistic and process-focused approach that the key agents of change have adopted.

The council is still in the process of introducing systems which are to the full satisfaction of the senior managers who use them but have identified that it is a learning process which requires not only training of senior staff and politicians but also a solid and open system of communication which will help the developers of systems and the users of systems to understand each other better.

The effect of central government and financial constraints on the form and substance of financial information in MacLaren Council will likely be the most important factors in future developments. The limited resources at the disposal of the council to invest in support services opens up an opportunity for organisations like the Scottish Executive, COSLA and the Accounts Commission to help develop appropriate financial information systems that are useful management tools. Although current guidance from these organisations has focused on external accountability, there is recognition within MacLaren Council of opportunity for change:

I think that what we've got to do is be more involved. I think there's been a cultural change in the attitude between Central and Local Government ... The current Government have come in with an attitude of having a reasonable dialogue ... So there is a cultural change going on, but I think now we have to try and influence Government thinking, and if by working together we're looking strategically at where we are going in Government, if we

can work together ... why shouldn't the major authorities come together. (Leader of the Council)

In conclusion, while finance has a high visibility and importance at MacLaren, we cannot say that it has permeated the organisation. Nevertheless, there is a significant influence of accounting information on needs identification and the development of strategic priorities.

CHAPTER EIGHT

COMPARATIVE SUMMARY

This project set out to address two main research questions:

- (1) To what extent has accounting permeated local government management?
- (2) Has accounting information constrained or facilitated management change in local government?

This chapter compares the experiences of the six councils in relation to these questions. Before commenting on the role played by accounting in specific management changes, however, it is noted that in both countries there were three primary drivers of change.

Drivers of change

First, change was driven by central government initiatives. Councils in both countries were forced to amalgamate several smaller organisations with consequential challenges for structures and systems. In Scotland, Accounts Commission guidelines prompted specific managerial changes as did Best Value initiatives (although in some cases these notions had already been adopted by the councils before any formal requirements were introduced). In New Zealand, the management practices adopted were entirely voluntary. It was the external accounting requirements which were specified in legislation, although some of these also impact on internal management; for example, a requirement for accrual accounting encourages better management of assets.

Second, change was driven by financial pressures. Whilst these are not of themselves accounting matters, they do tend to raise the level of importance assigned to financial information by both elected members

and management. In Scotland, Henderson City Council explicitly acknowledged downward pressures on available finance as a major factor in placing accounting information centre stage, as part of its budgeting review processes. Johnston noted that the non-availability of finance triggered policy changes, whilst MacLaren saw financial constraints as responsible for greater involvement by councillors in budgetary matters and closer working together by departments in order to find cost savings. McLeod Council similarly experienced reduced budgets, combined with increased wages and demands on services, but observed that political rather than purely financial imperatives continue to be the backbone of the decision-making process. In New Zealand, Rata District Council became engaged in contracting out as a response to financial pressures, exacerbated by being a rural council with a large area to service and low rating base. The legal requirement to fund depreciation was also seen by this council to create financial pressures. By contrast, Rimu City Council's interest in financial information was driven by the need to establish the viability of strategic initiatives proposed by the elected Council. Even in this relatively well-off council, however, budget overruns were responsible for focussing the attention of service managers on accounting information.

Third, the speed and form of change were a function of individual leaders at political or managerial levels. In MacLaren Council, the new unitary structure released a strong political drive, centred on an elite subset of highly motivated councillors who wanted to see the Council develop as an innovative, ahead of its time authority. They effected a considerable move away from officer controlled budgetary processes towards overall decision making by elected members. Strong political direction was also evident in Henderson and Johnston City Councils, conceivably because major cities find it easier to attract elected members with a high level of expertise. In New Zealand, the radical changes made by Rata District Council were driven by a chief executive of vastly more experience in local government than most of his political counterparts.

In Rimu City Council, the appointment of a new chief executive with a clear vision for organisational change coincided with new political leaders with a strong vision for the city as a whole. Here, as in McLeod Council in Scotland, it was an effective partnership between the political and managerial leadership and an emphasis on teamwork at all levels, that was responsible for successful innovation.

Role of accounting in management change

In response to the varying pressures from central government, financial constraints and the vision of particular leaders, a diverse range of management changes are possible. Nonetheless, what is striking in the study is not so much the considerable variation in circumstances and diversity in character across the local authorities – which are to be expected – but the degree of commonality in the types of management change sought. There seemed to be a number of ideas/aspirations common across all the councils regardless of country, size, or whether the council was based in a city or a rural community. This was not only in Scotland, where a number of NPM ideas were promulgated by central government, but also in New Zealand where the type of management change selected was voluntary.

The management initiatives pursued in response to the pressures for change were the antithesis of the bureaucratic model as typically conceived (hierarchical, divisionalised, unresponsive, secretive). In other words, all the councils in the study were in the process of moving from bureaucracy to responsive management using NPM ideas, especially:

- a support for **devolved** management responsibilities;
- a shift from service providers to being enablers, by **outsourcing/contracting** services or engaging in **partnerships** with other parties;
- a move away from a set of values which were internal, and driven by professional interests within local authorities, rather than the needs of the citizen as ‘**customer**’;

- a rejection of short termism and a desire to take a more **strategic perspective** on the activities of the local authority; and
- the promotion of a **corporate philosophy** and perspective rather than narrow, sectional interests.

Of course, the councils have varied in the degree to which they have implemented the management changes identified. Accounting, financial information and performance measurement can help or hinder this implementation. The relationship between accounting and the implementation of the various management ideas in each of the case study settings using these NPM ideas is now examined.

Devolution

Decentralisation, undertaken by all the councils, refers to the flattening of organisational structures and placing less emphasis on centralised control. A related, although not identical, notion is devolution which refers to the transfer of decision-making powers to lower levels of the organisation. The idea is that managers closer to 'the coal face' are in the best position to judge what is the most efficient and effective way of handling a particular situation.

The *quid pro quo* for greater devolution is greater accountability. Most organisations had devolved responsibility for preparing (and adhering to) budgets to departmental managers and used budget updates for monitoring expenditure. They reported success in using financial information, combined with intelligent questioning, to hold managers to account for (and in the case of elected members, holding senior managers accountable for) staying within budget. Fat from the system was eliminated in this way. Fiscal discipline naturally tended to work more effectively in an environment of severe fiscal constraint, despite the fact that this was acknowledged to be a basic requirement at all times. One strategy that seemed to work well was that adopted by Rimu City Council where the Chief Accountant and the overall

Director of Operations worked alongside departments who were in danger of overspending to find ways in which this situation could be averted. Useful budget monitoring depends, however, on having a good commitments accounting system and advance warning. In some cases, particularly in Scotland, councils simply did not have the time or resources to install a commitment accounting system.

There is less evidence that non-financial information was being used effectively for holding managers accountable. Most agreed that a lot more could be done in terms of developing meaningful performance measures for internal management purposes. At present, non-financial information seems to be produced mainly for external 'ritualistic' reporting purposes – a matter for statutory or audit compliance rather than a genuine accountability tool. Benchmarking was tried but real problems were experienced in finding comparators across very diverse local authorities. Again, many organisations were hamstrung by lack of time and resources.

Contracting out

Financial pressures create incentives to explore alternative forms of service provision. In various ways, all of the councils in the study were shifting away from being providers of all services to taking responsibility for the service being provided, whether that provision be by the council in partnership with central government or the voluntary sector (*eg* Henderson, Johnston, Rimu), or completely contracting out to commercial providers (most councils, but notably Rata).

Contracting out (or the softer version, partnerships), whether imposed (CCT during its existence) or voluntary (as in New Zealand) provides a major incentive for the development of accurate costing systems, as does charging for services. In Scotland, the central government's Best Value Initiatives advocated the use of ABC but there was unevenness in its application across councils and amongst service departments within councils. For example, Johnston City Council considered ABC to be a goal but that it was nowhere near it, while Henderson described ABC as being in a developmental condition in its organisation and expressed

caveats about the precision of this information. McLeod had introduced ABC in some areas but considered it costly and time-consuming to implement with few tangible benefits if it was applied generically without appropriate consideration of specific circumstances of the organisation. Overall, councils paid lip service to ABC but generally thought it too complicated for practical use. Most wanted clearer guidance from oversight bodies before investing too much time on it, and some were quite cynical about it (“a gravy train for consultants”). In the New Zealand councils, a pragmatic approach to the development of costing systems had been taken; as there was no central government directive they were free to choose their own approach. Rata had started with a sophisticated ABC system but later abandoned it in favour of a simpler system which served its needs better.

Responsiveness to customers

Most councils aspired to an information system which would allow any front line officer to respond to customer queries immediately and in a co-ordinated form that mirrored the reality of whole individuals rather than in a form that mirrored separate functions. However, the majority of councils had not developed accounting information for this purpose to the degree that they had developed accounting information for financial monitoring purposes.

The new kind of information system which permits responsiveness to customers requires the integration of financial information with other management information. In part this depended on the extent to which old functional divisions, or the separate structures and cultures inherited from the individual pre-amalgamation authorities, persisted. Integration was also dependent on information technology, with some councils, particularly in Scotland, constrained by the problems of integrating systems inherited from predecessor councils and a lack of resources to develop new systems. In New Zealand, problems of fragmentation (“islands of information”), old software, and different systems requiring reconciliation, were similarly experienced by Rimu City Council. Of all the councils in the study, Rata District Council had made the most

progress in achieving an integrated system for responding to customers, the task probably being easier because of its small size. It is interesting to note that a consequence of integration was that finance and accounting ceased to dominate information systems but were instead absorbed by them.

Customers may also be internal; for example, with service level agreements between departments. In particular, the accounting function has internal customers. The case of Rimu illustrates that accounting services function best if they are sensitive to the needs of user departments; for example, being willing to listen and to provide reports in a format tailored to the differing needs of different departments rather than assuming 'one size fits all'. Particularly important to internal customers is the adequacy of the costing system being used to determine charges between departments. Detailed sophistication of the costing is possibly of less significance than perceived fairness.

Strategic perspective

There is an extensive literature on strategic management in the private sector. There it is viewed as the means of coping with uncertainty and competition. The public sector is not immune from a changing environment. Most of the councils in the study talk about developing strategy as opposed to conducting their affairs reactively, incrementally or with little regard to the future beyond the immediate financial year.

In New Zealand, strategic management is not only an aspiration, it is a possibility. Financial information can be of considerable help here. In the case of Rimu City Council, the election of a new breed of mayor and councillors, with a desire to enhance the city through capital projects and, later, social initiatives, created a need to determine whether such initiatives would be affordable. It was in this context that long-term financial plans were first developed – several years before they became mandatory across the country. This development also gave Rimu the flexibility to continue to engage in strategic management by providing for costs such as depreciation from a much earlier stage than other local authorities. The 1996 legislation with its requirement

that local authorities publish financial plans extending at least ten years into the future has encouraged strategic management in New Zealand local authorities. For example, Rata District Council has found that the need to examine assumptions in order to produce the long term financial strategy has required them to think more deeply about strategy generally.

The Scottish authorities also aspire to strategic management but are much more severely restricted in their efforts by central government which has cut back funding whilst at the same time requiring certain activities to be performed. In these circumstances, budgets tended to drive strategy rather than strategy/policy driving budgets.

In the Scottish councils, there is no certainty about future funding from central government, which forms around 80% of total funds. Central government has started to produce information about capital funds for three years ahead but has only recently started to do this for revenue funding. The New Zealand authorities, by contrast, are independent of central government funding (except for roads) and, being much more in control of their destiny can engage in financial planning for ten years ahead. The Scottish councils have little time, or incentive, for considering new or different initiatives over the longer term; they are struggling just to maintain *existing* levels of service. Nonetheless some of the councils do try and respond strategically – here, accounting information helps them to evaluate the financial implications of different policies and options. This is in contrast to accounting being used primarily to report on stewardship of resources and repositions the priorities of directors of finance. Other councils lacked the financial information necessary to conduct such policy evaluation or to investigate different scenarios. A reason for this, encountered in at least one authority, was that the director of finance could not obtain and/or could not combine the information from different departments in a manner useful for overall strategy formulation.

Corporate philosophy

The drive for horizontal co-ordination, including de-departmentalism and an emphasis on teamwork, has several strands. First, it reflects the decreasing emphasis on individual service delivery which, in the past at least, led to organisation along functional lines. Second, to the extent that councils still deliver services themselves, there is a greater acknowledgment that the lives of customers involve a mixture of services, not a series of unconnected services, and that councils should therefore present a 'seamless interface'. Third, once a strategic perspective has been developed, horizontal co-ordination is required for strategic management. Fourth, both a marketised or contracting approach, and devolution of decision-making responsibility to front-line personnel, create a need for co-ordination of the autonomous elements. Accordingly, a more 'organic' or 'holistic' view of organisations is encouraged.

Most of the councils had difficulty developing a co-ordinated information system which could facilitate horizontal management. Again, a major problem was that the amalgamated councils inherited several different systems which were not wholly compatible and considerable effort had to go into addressing this problem. Some accounting systems were clearly outdated, but many lacked the resources (money, time, skills) to develop improved systems. In most councils, there were problems getting managers to specify what information they needed or to provide the necessary information on a timely basis. As a result, accounting information tended to be less than useful and overworked managers tended to ignore them – a vicious cycle. The case of Rata District Council shows that where financial information is integrated with other management information and shared across the whole organisation, it can actually contribute to a 'team ethos'. However, such integration is probably easier to achieve in a smaller organisation.

Another factor impinging on the development of a shared information system was the relationship between accountants and operating managers. Where this relationship was adversarial, or where the accountants were perceived as remote technicians, a 'them

and us' mentality tended to exist. There was a disinclination to share information as it was perceived as being 'for the accountants'. Also, as accountants were often the gatekeepers of funds, they could be perceived as 'the people who stop us from doing things'. This view, and hence the antagonism between finance and other managers, can be magnified in times of budget cutbacks. Ways in which these problems were overcome included hiring professional accountants with a flexible attitude and strong skills in dealing with people, widespread training of all staff on financial matters, having accountants ('accounting buddies') work in teams alongside unit managers, being prepared to tailor reports to the differing needs of different managers and being readily accessible and prepared to help and advise. Having finance staff placed within departments and accountable to departmental managers, rather than to the director of finance, tended to inhibit information sharing. The strategy of having finance staff accountable to the director of finance but working alongside other managers seemed to work better.

In some cases, managers appeared reluctant to share information or provide useful information for fear that their jobs were under threat. Against this, at least one council (MacLaren) found that financial constraints broke down departmentalism because of the need to work together if savings were to be found. Accountability and financial mechanisms can inhibit interdepartmental co-operation, especially if accountability is based on departmental lines of authority.

Culture

In addition to the typical NPM changes identified earlier, some of the councils also placed considerable emphasis on cultural change. In this respect, two of the more innovative councils, Rimu and McLeod, espoused remarkably similar management philosophies which transcended their geographical distance. Both saw a change in culture and capabilities as necessary to cope with an uncertain and changing environment and tended to view changes (including the initial amalgamation, the legislation in New Zealand or the Best Value initiatives in Scotland) as opportunities rather than as problems or threats. Both sought a 'values

led' culture focussed on key values of: openness and accountability to citizens; participation and involvement of staff and citizens in decision making; quality and equality of service delivery; learning and innovation. McLeod, because of its larger geographical area also cited devolution to local constituencies as a key value, although the matrix structure developed to cater for this did, at least initially, present some confusion for managers. MacLaren also acknowledged the importance of culture change but it was less evident that it had the specific mechanisms and strategies in place to achieve this.

The shift to a 'values led' participatory culture has implications for accounting. First, the culture of accounting and accountants themselves need to be considered. It was felt by more than one interviewee that too heavy an emphasis on financial discipline tended to stifle innovation and discourage risk taking. At the same time, financial responsibility needs to be accepted as fundamental. In the case of Rimu City Council, the emphasis on culture change led some to make the mistake that financial discipline had become less important and it was necessary to reassert the message of financial discipline in the use of public funds being fundamental. Recruitment of more innovative, adaptable and people-oriented accounting professionals is a key mechanism for bringing about cultural change in the finance and accounting functions. This may be a little easier in the New Zealand situation where there is one professional accounting body (covering both private and public sectors, financial and management accounting), making it easier to recruit from the private sector as well as the public sector.

Second, the nature of the accounting information needs to be considered. Accounting is strongly associated with an emphasis on quantities which may be at the expense of an emphasis on quality. Better measures or indicators of quality, to complement existing accounting information, is one necessary development. Another possibility is accounting which focuses on longer term capability (including technical and human intellectual capital) rather than short term costs.

Extent of accounting influence

In all the councils there was evidence of financial information playing a much more significant role at the policy level. Elected members, or at least a subset (motivated elite or more formal inner cabinet) were demonstrating knowledge of, as well as interest in, budgets and financial reports. The ability to draw on a wider pool of expertise may have been a benefit of amalgamation. Budgeting no longer emerges only once a year from 'smoke filled rooms' within the bowels of the organisation; instead budgets are increasingly owned by elected members and viewed as a continuous process. In the Scottish authorities there remained a tendency for budgets to substitute for strategy or for the alignment of strategies on policy and actual expenditure policies to remain elusive. In New Zealand, it was the desire to implement strategies that drove the development of long term financial information in Rimu. Several years later, legislation made long term financial planning mandatory for all councils. As the case of Rata illustrates, this has had the effect of making councils think more deeply about strategy generally. A further consequence of the New Zealand legislation, with its participatory processes for annual and long-term planning, is that the use of accounting information has extended not only to the elected members but to citizens at large. The requirement to develop funding policies aligns citizen preferences with actual budgets.

With the exception of the smallest council, Rata, where accounting information had become fully integrated with other information for management, the picture is one of accounting permeating the organisation to varying degrees but with plenty of scope for further development. As noted earlier, factors which affected the extent to which accounting could be made useful, and therefore more likely to be used, included the sharing of information across functional lines, the integration of separate systems and cultures inherited from predecessor councils, and the resources available to update information technology. Furthermore, too much restructuring tended to place heavy strains on already overburdened accounting and IS staff, especially where the

organisation tried to align its systems with its organisational structure. This potentially reduced the resources available for training managers in the use of accounting information; a pre-requisite to its permeating management on an everyday basis. In councils which continued to have several large departments, the extent of accounting influence varied across departments.

Overall, there was evidence in all the councils of budgets having been devolved and of managers being held accountable on a regular basis for their financial performance against budget and of financial discipline being exerted as a result. The next stage is to develop a culture whereby managers actively seek feedback for their own purposes; none of the councils had yet reached this stage. Compared with financial information, there was scepticism about the usefulness of non-financial performance information as management tools. However, this was not opposition to the idea of performance information itself, but instead an acknowledgment of the state of the art so far. The development of such indicators presents an opportunity for accountants working together with other disciplines and with service managers. Such development, and other challenges for accounting in the future, are the subject of the final chapter.

CHAPTER NINE

RECOMMENDATIONS AND CONCLUSION

If accounting is to play an effective role in local government management, it is essential that managers provide, share and use the information. The experiences of the six councils in the study suggest a number of practices which help to promote the provision, sharing and use of information and these are recommended below:

- Break down barriers between accountants and non-accountants so that managers view accounting information as for themselves rather than for the accountants. The posting of accounting staff to operational departments or the use of ‘accounting buddies’ (a specific member of the accounting staff to whom each service centre can turn to for advice) is helpful as is the recruitment of accountants with strong interpersonal and communication skills.
- Provide all staff and elected members with appropriate training in the use of accounting information. In particular, the purposes of the information should be made clear. Managers should then understand why their timely input of accurate information is necessary. If better information is provided, it is more likely to be used. If information is used and found useful, it is more likely that managers in turn will want to input good information.
- Where possible, tailor reports to the needs of users, rather than issuing a standard format report to all managers.
- Develop meaningful non-financial performance information by consulting users and sharing ideas with other local authorities. Merely following requirements of external reporting or central

government directives may encourage a ritualistic compliance mentality rather than genuine efforts to manage performance.

- Integrate financial information with non-financial information, investing in new information systems as necessary. 'Accounting information' has to be conceived of much more broadly than just financial information if it is to continue to be the 'lifeblood' of an organisation.
- Develop good commitment accounting systems which give early advice of potential budget problems.
- Maintain simple costing systems which are fair to all parties across the organisation. Develop more complex systems only when the need arises and principles of costing are well established within the organisation.
- Recognise that conventional accounting tends to be more compatible with some cultures (*eg* production cultures such as engineering) than with others (*eg* 'craft' or 'coping' cultures such as education or social work). In the latter types of activities, notions such as standard cost may be counter-productive.
- Exert financial discipline at all times whilst encouraging innovation (for example, process re-engineering) to achieve it. Hold managers accountable for their budgets but ensure that these, and the subsequent monitoring reports, are based on timely and fair information. If a senior accountant and a senior operations manager work together in discussing budget performance with the individual service managers, and co-operate in finding solutions to any problems, the accounting information is less likely to be viewed as a threat.
- Given the limited, constrained resources of local authorities, there is potential for central agencies (central government, COSLA, Accounts Commission) to undertake development work to promulgate best practice in financial management.

Many of these recommendations might equally apply to a private sector organisation. However, public management is not confined to the application of managerial practices within organisations. As Kickert (1997, p.742) points out:

The internal changes in management and organisation within [public sector organisations] cannot be detached from the changes in external governance between government and societal sectors. The internal running of the 'business' of public organisations cannot merely be approached from a business-like or 'managerialist' perspective.

The internal/external distinction is much less defined in the public sector than it is in the private sector; for example, it is expected that citizens have a right to participate in some way in the setting of budgets. Kickert argues that the idea of public management should be broadened into 'public governance':

Public governance has a broader meaning than the usual restricted business-like, market-oriented interpretation of the concept of 'management' ... Government functions in a context of political democracy ... Public governance is complex activity involving the 'steering' of complex networks in societal policy sectors. (Kickert, 1997, p.232)

Similarly, Metcalfe (1993) distinguishes public *management* (management within public sector organisations) from *public management* (public governance). In this context of public governance, openness, transparency and communication with citizens is crucial. Not only can it be argued that 'external' reporting issues are matters of *public management*, but it is likely that a culture which values openness and transparency with citizens will permeate management within the organisation as well. Additionally, being required to produce certain information for external reporting (as under New Zealand legislation) demands an adequate internal accounting system to feed it.

Citizen surveys, if conducted properly, can serve a dual purpose. Firstly, they can guide the policy process. Secondly, citizen views can be an important component of performance reporting (*eg* citizen satisfaction levels as one measure of quality of service provided). Similarly, employee surveys, mentioned by at least one council, can serve equivalent purposes within organisations.

In the New Zealand case, annual plans and, more recently, funding policies and long term financial plans, have become important vehicles for communication with citizens. In Scotland, there have been moves to establish citizen forums, at which citizen concerns might be discussed. This increasingly goes beyond one way dissemination of information, about decisions already made, towards a genuine dialogue. The New Zealand legislation *requires* that local authorities follow special consultation procedures before these documents are finalised. In both Scotland and New Zealand elected members have become much more active in the budget setting process. Not all elected members are accounting-literate, however, and there is a case for educating members (especially new members) in understanding financial reports (some councils already do this). More educated councillors change the types of demands for information, but ultimately political rather than financial imperatives are primary. However good the information, some decisions will still be made for political reasons.

How involved citizens become depends not only on the degree to which they can have some impact on decisions, but also on the presentation of the information itself. Meaningful non-financial information and performance measures and information about the medium to long term future are of more interest than backward-looking financial statements. Information about outcomes is needed as well as information on inputs and outputs. If costs are to be used for purposes of comparison between public and private sector providers, for policy purposes, there should be some way of accounting for different costs in the different sectors. For example, the private sector may face taxation costs and costs of capital (unless a capital charge is applied in the public sector). Where public sector organisations have not fully adopted

accrual accounting they might not be covering depreciation costs. On the other hand, the public sector may face additional costs such as the costs of democracy (interacting with citizens and elected members) and legislative compliance. The presentation of alternative scenarios is more likely to generate citizen interest and involvement. This is dependent on the ability of the accounting system to produce such information and, again, this seemed to depend in part on availability of resources for IS development.

As noted earlier, Kickert describes public governance as a complex activity involving the 'steering' of complex networks in societal policy sectors. Such networks, partnerships and other arrangements create some real challenges for accounting. They tend to blur the definition of the accounting entity and create some complex accountabilities. They raise questions such as who is responsible for the information and how it is to be shared. Since several organisations may jointly contribute to an objective, there is a case for organising information around objectives (outcomes sought) rather than structural entities.

Finally, if accounting is to play a role in community governance, accountants should remember that it is both a measurement and a *communication* discipline. Perhaps it is time that we placed more emphasis on the communication aspect. Budgets, performance measures and other financial and non-financial documents may be more important as a process than as a product. They are not an absolute measure but rather a basis or starting point for discussion and negotiation. This applies equally to internal information and information for citizens and their representatives. The development of accounting which inspires discussion, and is eagerly sought after by managers and elected members, is a challenge to which the councils in the study are just beginning to respond.

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ANNEX A:

THEMATIC QUESTIONS USED IN INTERVIEWS

What type of management does the local authority exhibit today?

How does it differ to old management styles?

- How is your local authority organised? By function, area, matrix structures?
- Has there been significant management change in your local authority (would you describe this a sculptural or structural? Cite examples

What levels of the organisation were mobilised to produce change?

What processes were mobilised to produce change?

- Who were the main characters/actors involved in bringing about this change?
- How do elected members and their political interests influence organisational response to external pressures?
- Are there any differences between professional groups in their response to change?
- How is the leadership role, split between members and officers, dealt with? Are cultural values held by members very different to those held by officials?
- Is innovation central to the operation of local authorities?

- Is there a need/possibility for officers to behave in an entrepreneurial manner?

What type of organisation has emerged from this change?

- Would you say that you now regard citizens as consumers? Can you cite examples of this?
- Would you consider your authority to be a responsive organisation? If so, how does this affect its communication, in particular with outside parties?
- Do the five essential questions on Best Value translate to the practice of management in your local authority?

What type of accounting information is generated in each local authority

Is the type of information generated determined by the type of management or vice versa?

- What part does accounting information play in initiating, implementing or achieving change? Can you cite specific examples?
- How compatible is accounting information with the emerging culture in your local authority?
- What is the impact of austerity on the use and design of accounting systems in your authority?

At what levels of the organisation is accounting information active?

- How do you use accounting information? Can you cite strategic or operational examples?
- How is managerial accountability evaluated? What is the role of accounting in this?