

## The governance of local public spending bodies

Although there has been much debate about the public accountability of local public spending bodies, relatively little attention has been paid to how policy and strategy is made within these organisations. A study conducted by Alan Greer and Paul Hoggett of the University of the West of England has examined patterns of corporate governance in three types of local public spending bodies - Further Education Corporations, housing associations and Training and Enterprise Councils. They found:

- f Organisations increasingly stress the need for boards to concentrate on a strategic role and to delegate day-to-day management to executive officers.**
- f Focusing on strategy has helped many board members to maximise their participation in the activities of the organisation, particularly given their part-time and voluntary status.**
- f However, there is a tendency for too rigid a line to be drawn between strategy and operations. Strategy and operations cannot always easily be distinguished and members' attention can be diverted from legitimate areas of concern by a narrowly interpreted sphere of strategic issues.**
- f Boards still tend to react to strategic agendas set by management. Moreover, there is a tendency for boards to become preoccupied with the strategic concern for competitive survival to the detriment of policy questions.**
- f The constitutional structure and strong consensual culture of many local quangos limit the diversity necessary for an effective board. There is still a tendency to see disagreement as something to be avoided at all costs.**
- f There are clear signs that boards are slowly improving their effectiveness:**
  - board members are beginning to identify strategic issues that management has overlooked or neglected and do scrutinise management proposals;
  - there is clear recognition of the need to empower members to perform their role effectively;
  - the opening-up of recruitment processes may produce boards with greater diversity of perspective.
- f Despite these common themes the internal governance of local quangos is also characterised by considerable diversity and the particular form of governance in any organisation reflects different cultures, traditions and personalities.**

## Internal governance

The tendency to focus on the accountability of local public spending bodies to the wider public rather than on their internal governance obscures important considerations which stem from their complexity and variety. Using a sample drawn from the further education colleges, housing associations and Training and Enterprise Councils, this study examined patterns of corporate governance within such organisations. The focus was primarily on the relationship between governing boards, chief executives and senior managers.

All of the organisations surveyed in the study expressed worries about the extent to which central constraints on their autonomy and flexibility impeded their ability to exercise the governance role effectively. Central government and its arm's-length agencies such as the Further Education Funding Council maintained strong centralised control through performance-related funding, extensive monitoring, detailed inspection, auditing and guidance. This has been recognised by the Nolan Committee which has recommended a more hands-off regulatory structure and simplified audit arrangements.

## Giving direction

### ***Policy and strategy***

With the progressive centralisation of government the ends of policy have become increasingly pre-determined by Whitehall and its agencies whereas the scope of local authorities and local public spending bodies (LPSBs) has been increasingly restricted to means. Hence perhaps the frequent references by public sector executives, management consultants and academics to 'strategy', which is primarily about the positioning of the organisation in its market in areas such as pricing, marketing, diversifying, merging and collaborating. This is reflected in the recruitment by LPSBs of members with backgrounds in finance, law and human resource management. Whilst such members' contribution to strategy may be strong they often have little to offer in terms of policy-making.

Not surprisingly differences in values were apparent in most of the boards studied. One expression of this on some boards is the tension between the values of business and those of public service. However, most of the organisations in the sample did try to give expression to social values despite the financial and policy constraints set by central government. Comparatively there seems to be more room for manoeuvre in the housing sector than in further education where funding arrangements could well have an homogenising effect.

### ***Strategic and operational issues***

All of the organisations in the study had developed their own individual combinations of a range of strategies in an effort better to position themselves in their respective markets. These included mergers,

creating distinctive market niches, managing surpluses, rationalisation and restructuring, and developing the organisation's profile.

Although the boundary between policy and strategy is fuzzy, there is little disagreement that both must in theory be distinguished from administration and operations if governing boards, composed of part-time and voluntary members, are to give the organisation direction: board members can spend more of their valuable time setting the overall vision and strategy of the organisation rather than getting bogged down in operational matters. Most organisations have developed explicit statements of mission, values, policy limits and strategic planning, through which the board clearly defines the operational autonomy given to the executive team.

However, there are problems with a rigid distinction between strategy and operations. Firstly, there is a danger that managers exclude board members from the discussion of important issues by defining them as operational; secondly, operational issues can acquire strategic significance.

## Relations between members and officers

There is no strong general desire for payment amongst board members of governing bodies. Indeed, the issue arouses strong feelings amongst those who see the voluntary principle as a key value. However, there is a tension between the desire of boards to appoint individuals with relevant experience and expertise, and the difficulty many such individuals find in combining a voluntary role with their other professional activities. As a result, many boards are still dominated by individuals who either work for themselves, work part-time, or have retired. The crucial question facing board members is how to combine the principles of volunteering with the effective power to hold LPSBs accountable and shape their direction.

### ***The role of members***

The majority of board members across all three sectors were clear that their role has to be strategic and that this requires some kind of partnership with management. However, there was a diversity of views about the nature of this partnership, the relative strength of the contribution of each partner and the kinds of contribution that members could make to this partnership.

Board members recognise that in practice officers must necessarily take the lead in developing strategy because they have both access to information and the time to work up proposals and engage in background research. The role of members is to respond to the ideas and proposals being put forward by senior officers. Here members see a variety of contributions which they can make, including subjecting proposals to detailed scrutiny and questioning, adding a range of different perspectives, acting as a sounding board, providing tactical advice, emboldening and providing

a brake, and adding caution to enterprise.

This requires a board with a balance of skills, experiences, values and perspectives. However, most board members are still drawn from a narrow and homogenous social stratum with a preponderance of white, middle-class, middle-aged to retired, men. More open recruitment practices could provide one of the conditions necessary for more diverse board membership but chairs and chief executives may still play a powerful role even in these circumstances.

#### ***The role of the chair and the chief executive***

The ability of the chair to orchestrate and co-ordinate rather than impose or direct was seen as important in the majority of the case study organisations. A powerful partnership between chair and chief executive was a characteristic of several. Irrespective of the strength of this axis, chief executives saw chairs as a very useful source of information with regards to the board. Effective management of board meetings was also seen as crucially important. This sometimes extends to soothing potential conflicts in advance of meetings through informal contacts with other members.

The chief executive and senior management generate most initial policy and strategy proposals. For the majority of chief executives, open disagreement between board and executive is a sign of a major personal failure. They see their role as preparing the ground for their proposals and, if necessary, isolating any potential opposition on the board. Where the relationship is good, chief executives will usually rely on the chair to sound out board members on controversial proposals. Many chief executives therefore see their role as the management of consensual relations between board and executive.

#### ***The strength of the board vis-à-vis the executive***

A number of characteristics differentiate weak from strong boards across all sectors. For example, a strong board will be proactive whereas weak boards consistently react to an agenda shaped by management; strong boards are able to subject items to detailed scrutiny, uncovering weaknesses, inconsistencies and simple lack of preparation, on a weak board officers have the feeling of 'being allowed to get away with things'; a strong board will not be afraid of rejecting management proposals and will, where appropriate, be able to stick by their own ideas despite management criticism; and partnerships between strong boards and their executives are based upon mutual respect and confidence whereas weak boards tend to be deferential towards the executive.

The strength of the board depends upon the ability of several but not necessarily all of its members, and on the balance between them. So typically strong boards contain some individuals who excel in subjecting proposals to detailed scrutiny, others who are prepared to be confrontational with management, and several with a keen strategic sense,

able to pick out patterns or decisive moments in the chaos of events and the mass of information.

#### ***Methods of empowering board members***

The effectiveness of board members depends upon a number of factors including: their consistency in attending meetings; motivation and commitment; sense of legitimacy; knowledge of the nature of the organisation and its activities; long-term thinking and vision of the way the organisation fits with its external environment; and personal confidence and leadership capacity. For the majority of board members, however, the capacity of the organisation to make the best use of their contribution was crucial, given their voluntary and part-time status. There were four main areas of good practice where organisations increasingly promote members' participation:

- induction and training - including policy briefing slots at board meetings;
- the conduct of board and committee meetings - e.g. keeping proceedings jargon free, keeping to time;
- effective information to members - often via support from dedicated officers;
- involvement of members in away-days, project groups, on-site meetings with staff, etc.

#### ***Patterns of governance***

The patterns of governance which emerged are complex and the three types described below are not exclusive of one another. Moreover, a powerful relationship between chair and chief executive and fluctuating coalitions may be superimposed upon these patterns. On occasions, in virtually all kinds of boards, items may get onto the agenda as a result of informal coalitions between members and officers.

#### ***The functional committee***

The board is organised around a series of functional committees such as finance, estates and development, often with decision-making powers. These meet regularly and report to the main board.

Advocates of this approach argue that it provides the most effective way for members to have a hands-on approach to policy and strategy. Committee work gives members the opportunity to get involved in areas of the organisation's life in more detail and to develop a closer relationship with managers. However, there is a danger that board meetings simply duplicate committee work with a great amount of time wasted on receiving and approving reports. The system can also encourage a certain degree of fragmentation of the board because there is no group of members who can take a non-committee perspective.

### **The inner core**

Here a core committee composed of the most powerful members (often chairs of other committees) meets regularly with the executive and is responsible for all key decisions. This allows a more equal relationship between a small group of members and the executive. Moreover, a more informal atmosphere may permit more effective forms of dialogue between members and officers. The disadvantage is that it tends to marginalise those members who are not a part of the core. Meetings of the full board can become desultory and there is a danger that the board simply rubber-stamps decisions which have been thrashed out by the core committee in advance.

### **The corporate board**

Here all key decisions are made by the full board which meets monthly or every six weeks and is the primary forum for members, considering all issues of strategic importance to the organisation. Where sub-groups exist their work tends to be more task-oriented and time-limited. The advantage of this model is that it gives all board members a sense of ownership in the organisation and promotes inclusivity. A number of advocates also argue that it is the most effective means of involving busy people as voluntary members and that it forces the board to be strategic. On the debit side, it does make it more difficult for board members to develop the necessary level of understanding of operational matters.

### **Conclusions**

The researchers make the following recommendations for improving practice:

- central regulation and steering of LPSBs should be restricted in order to promote greater local responsiveness;
- LPSBs should be encouraged, through legislation if necessary, to ensure that the structure and composition of boards promotes a balance between members with strategic and policy expertise;
- to promote diversity and local accountability a 'stakeholder' concept of boards should be developed, through legislation where necessary, in which all the key constituencies with a stake in the organisation's activity have a number of places reserved on the board, members being directly or indirectly elected by these constituencies;

- a more strategic approach to the empowerment of board members should be adopted by funding and regulatory agencies and by LPSB associations. This should include the dissemination of best practice and awards or other incentives for excellence in corporate governance.

### **About the study**

The study is based on relatively detailed case studies of four further education corporations, three housing associations and two TECs, plus a less detailed study of one housing association and one TEC. Where possible organisations of roughly similar size were chosen within each sector. The methodology used included semi-structured interviews with board members and senior officers, observational study of boards (including sub-committees) and documentary research. This was intended to give a more detailed, in-depth, picture of the internal governance of LPSBs to complement existing broad brush research based on survey methods.

### **Further information**

The full report, Patterns of accountability within local non-elected bodies by Alan Greer and Paul Hoggett, will be published in April for the Foundation by York Publishing Services (price £9.95 plus £1.50 p&p; ISBN 1 899987 42 8).

#### *Related Findings*

The following *Findings* look at related issues:

- 30** The governance gap: quangos and accountability (Sept 94)
- 31** The operation of the non-domestic rate (Nov 94)
- 32** The feasibility of a local sales tax (Jan 95)
- 35** The membership of local appointed bodies (May 95)
- 36** Options for business rate reform (Jun 95)
- 42** Access to capital for local services (Nov 95)

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