Examining the Structuration Processes in the Financial Accountability and Governance Practices Pertaining to the Public Private Joint Venture Partnerships (LIFT) in the UK Health Sector

A Thesis submitted to the University of Manchester for the degree of Doctor of Philosophy (PhD) in Accounting and Finance in the Faculty of Humanities

2012

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# Table of contents

Table of contents ........................................................................................................... 2  
List of Tables .................................................................................................................. 5  
List of Figures ................................................................................................................ 6  
Declaration ..................................................................................................................... 7  
Copyright, Ownership and Intellectual Property ......................................................... 8  
Dedication ....................................................................................................................... 9  
Acknowledgements ...................................................................................................... 10  
Abstract ......................................................................................................................... 11  
List of Abbreviations ................................................................................................... 12  
Chapter One: Introduction ............................................................................................ 14  
1.1 Introduction ........................................................................................................... 14  
1.2 Motivation for the Study ....................................................................................... 15  
1.3 Research Context ................................................................................................. 20  
1.4 Research Questions and Purpose ......................................................................... 23  
1.5 Outline of the Thesis ............................................................................................ 25  
Chapter Two: The Development of Public Private Partnerships in the UK and Internationally ..................................................................................................................... 28  
2.1 Introduction ........................................................................................................... 28  
2.1.1 Aims and Objectives ....................................................................................... 28  
2.1.2 Outline of Chapter ......................................................................................... 28  
2.2 Neo-liberalism ...................................................................................................... 29  
2.2.1 Introduction ................................................................................................... 29  
2.2.2 Neo-liberalism: an Ideology, a Mode of Governance and a Policy Package .... 29  
2.2.3 Implementation of PPPs in the UK ................................................................ 36  
2.2.4 The International Presence of PPPs ............................................................... 41  
2.2.5 Background to the LIFT Policy and the Context of the UK Health Sector .... 45  
2.3 Financialisation and PPP ..................................................................................... 54  
2.4 LIFT Stakeholders, Related Conflicts and Contradictions .................................. 64  
2.5 Conclusion and Summary .................................................................................... 67  
Chapter Three: Philosophical, Theoretical Motivations and Methods ......................... 68  
3.1 Introduction ........................................................................................................... 68  
3.1.1 Aim and Objectives ....................................................................................... 68  
3.1.2 Outline of the Chapter ................................................................................... 68  
3.2 Philosophical Perspectives in Academic Research .............................................. 69  
3.2.1 Introduction .................................................................................................. 69  
3.2.2 General Overview ......................................................................................... 69  
3.2.3 Some Possible Financial Accountability and Governance Perspectives .... 71  
3.2.4 Limitations, Paradoxes and Overcoming Them ............................................ 75  
3.3 The Choice of Critical Perspective ....................................................................... 78  
3.3.1 Introduction .................................................................................................. 78  
3.3.2 Choosing the Critical Perspective ................................................................. 78  
3.4 Research Methodology and Approach .................................................................. 82  
3.4.1 Introduction .................................................................................................. 82  
3.4.2 Research Methodology ................................................................................ 82  
3.4.3 The Choice of the Case Study Approach ....................................................... 83  
3.5 The process of data collection ............................................................................. 85  
3.5.1 Introduction .................................................................................................. 85  
3.5.2 Selecting the cases ....................................................................................... 85
List of Tables

Table 2.1: NPM requirements, justifications, and implications ...........................................35
Table 2.2: Modes of PPPs and marketization arrangements ...............................................38
Table 2.3: Signed PPP projects in UK ..................................................................................40
Table 2.4: PPP mechanisms in health care .........................................................................44
Table 2.5: Financialisation and, accountability and governance implications .....................56
Table 3.1: List of interviewees for JV1 .................................................................................88
Table 3.2: List of interviewees for JV2 .................................................................................89
Table 4.1: Conception of accountability as a virtue .............................................................99
Table 4.2: The two components of accountability ..............................................................101
Table 4.3: Examples of structures ......................................................................................103
Table 4.4: Examples of human agent(s) .............................................................................104
Table 4.5: Examples of human agency .................................................................................104
Table 5.1: Levels of theorisation .........................................................................................145
Table 6.1: Capital structure of the JV1 group Ltd ...............................................................157
Table 6.2: Debt structure of JV1 Ltd and the subsidiaries ...................................................158
Table 6.3: Conditions for company or group to qualify as small or medium .....................178
Table 6.4: Capital structure of the JV2 group Ltd ...............................................................194
Table 6.5: Loan structure of JV2 group Ltd .........................................................................195
List of Figures

Figure 1.1 A basic PFI structure .................................................................21
Figure 1.2 A basic LIFT corporate structure ...........................................22
Figure 2.1: Number of PPP projects and their capital values, 1992-2012 ........41
Figure 2.2: The structure of the health system in England .....................47
Figure 3.1 Burrel and Morgan’s (1979) framework ..............................70
Figure 4.1: Accountability as a social relation ......................................100
Figure 4.2: Determinism approach to financial accountability and governance research 105
Figure 4.3: Technically contextual view ................................................111
Figure 4.4: A two-way interaction social constructionism ......................114
Figure 4.5: Primacy on human agency in research ...............................118
Figure 5.1: Dimensions of Giddens’ duality of structures .....................133
Figure 5.2: Human agency in duality of structures ................................139
Figure 6.1: The National Audit Office’s LIFT structure .......................151
Figure 6.2: The current form of the NAO LIFT diagram .......................152
Figure 6.3: The JV1 scheme’s corporate structure .................................153
Figure 6.4: PP1 Ltd and its organising elements ....................................172
Figure 6.5: Test for Joint venture ............................................................174
Figure 6.6: The JV2 scheme’s corporate structure ................................190
Figure 7.1: Application of Giddens’ structuration theory .....................211
Figure 7.2: Structural contradictions in the two groups .......................226
Declaration

I declare that no portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

Cletus Agyenim-Boateng
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Dedication

This study is dedicated to the following people:

My parents, Mr. Alexander Kofio Akuamoah-Boateng and Madam Agartha Tiwa Sekyi-Ntiakoh, who tenderly brought me up and instilled in me a sense of dedication to duty and hard work.

My sons, Yaw Agyenim-Boateng and Kofi Boateng Agyenim-Boateng, and my wife: Yvonne Agyenim-Boateng who kept keen interest in this study and inspired me throughout the difficult times. When I felt downhearted and isolated, you warmly comforted me. This study reflects the fruits of your inspiration. To you, I owe a life-long gratitude.
Acknowledgements

In a work of this nature, where ideas and help are obtained from many people, it is prudent to acknowledge debts and register appreciations where due.

I am grateful to the Almighty God for my life and favours in all my endeavours. God has richly blessed me for which I thankfully acknowledge and put on record.

Also, many thanks go to my supervisors, Dr. Anne Stafford and Professor Pam Stapleton. The fruitful time I spent with my supervisors has left lasting intellectual imprints on me as a person and on this study. I always felt very privileged to be supervised by both of you. I will always remember your pieces of advice, your patience and your critical and always very useful comments and suggestions. Your words such as ‘progress is being made and keep writing’ were very key sources of my motivation. You told me I will get there eventually. This final report of the study is the fulfilment of your prophecy. I owe you immeasurable gratitude and may you find expressions of a grateful student in the pages of this report.

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Moreover, my deep sense of gratitude goes to those senior managers and directors who took time off your busy schedule to be interviewed and answer questionnaire.

Mr. Charles Donkoh, a very good friend and a brother, I thank you very much for your financial support.
Abstract

Shaoul et al. (2012) state that the accounting, scrutiny and oversight of Public Private Partnerships (PPPs) remain areas of concern. Also, there have been calls for a more socio-technical and multidisciplinary approach to accounting and governance studies (Broadbent, 2012; Broadbent and Guthrie 2008), especially in relation to the empirical study of PPPs (Hodge et al., 2010). This thesis responds to these calls in part by drawing on Giddens’ structuration theory to examine the financial accountability and governance concerns that are created in PPP joint venture structures. The empirical work focuses on the health sector, which is identified as one of the sectors inundated by PPP activities, particularly in the UK (Treasury, 2012; Whitfield, 2010). It adopts a case study approach, based on qualitative methodology, which involves documentary analysis of secondary data and interviews in relation to two PPP schemes under the Local Improvement Finance Trust (LIFT) scheme in the UK’s health sector.

The thesis investigates: the extent to which the corporate structures of the LIFT scheme do complicate financial accountability and governance including external scrutiny; the extent to which the LIFT scheme does enhance partnership working between the public and private sector partners; the structures in financial accountability and governance in the LIFT scheme; the human agents that provide agency in financial accountability and governance in the LIFT scheme and; whether and in what ways structures and human agency in financial accountability and governance interact in the LIFT scheme and what the implications are.

The thesis finds firstly that the complex corporate structure of the LIFT scheme is very complicated and the joint venture mechanism cannot be relied upon to deliver transparency of reporting. Secondly, as limited companies, all financial reporting follows private sector accounting regulations and Company Law and there is minimal disclosure in terms of information available to the general public. This is worsened by lack of information sharing between partners as evidenced in one case study group. Thirdly, there was considerable inconsistency in the reporting due to multiplicity of interpretive schemas between the two case study groups. Fourthly, there was considerable change in the reporting due both to changes in accounting regulations and changes in organisational structure and interpretive schemas throughout the period. Fifthly, there is lack of continuity of public sector oversight and monitoring as the public sector, in practice, restricts its activities to pre-operational phase and limited oversight after construction phases. Moreover, partnership working is very difficult in the context of profit seeking under the LIFT structure. Partnership working and success of the LIFT scheme may depend on trust, key personalities working together as well as leadership. From the structuration perspective, the study finds structural contradictions and conflicts of interests in financial accountability and governance practices. Therefore, transparency, public accountability, oversight and scrutiny are necessarily undermined and, policy makers should pay attention to not only the private sector technologies but also the manner in which they are used to benefit finance capital.
## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BBO</td>
<td>Buy-build-operate</td>
</tr>
<tr>
<td>BDO</td>
<td>Build-Develop-Operate</td>
</tr>
<tr>
<td>BLOT</td>
<td>Build-Lease-Operate-Transfer</td>
</tr>
<tr>
<td>BOLB</td>
<td>Buy, Own, Lease Back</td>
</tr>
<tr>
<td>BOO</td>
<td>Build-Own-Operate</td>
</tr>
<tr>
<td>BOOT</td>
<td>Build-Own-Operate-Transfer</td>
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<tr>
<td>BOT</td>
<td>Build-Operate-Transfer</td>
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<tr>
<td>BROT</td>
<td>Build-Rent-Own-Transfer</td>
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<tr>
<td>BTO</td>
<td>Build-Transfer-Operate</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CHP</td>
<td>Community Health Partnership</td>
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<td>DBFO</td>
<td>Design-Build-Finance-Operate</td>
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<tr>
<td>DCMF</td>
<td>Design-Construct-Manage-Finance</td>
</tr>
<tr>
<td>DfT</td>
<td>Department for Trade</td>
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<td>DoH</td>
<td>Department of Health</td>
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<tr>
<td>EIB</td>
<td>European International Bank</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<td>EVA</td>
<td>Economic Value Added</td>
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<tr>
<td>FoI</td>
<td>Freedom of Information Act 2000</td>
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<tr>
<td>FRS</td>
<td>Financial Reporting Standard</td>
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<tr>
<td>GPFC</td>
<td>General Practice Finance Corporation</td>
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<td>GPs</td>
<td>General Practitioners</td>
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<tr>
<td>IAS</td>
<td>International Accounting Standard</td>
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<tr>
<td>IASB</td>
<td>International Accounting Standard Board</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ISTCs</td>
<td>Independent Sector Treatment Centres</td>
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<td>Las</td>
<td>Local Authorities</td>
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<tr>
<td>LDO</td>
<td>Lease-Develop-Operate</td>
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<td>LIFT</td>
<td>Local Improvement Finance Trust</td>
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<td>LIFTCo</td>
<td>LIFT Company</td>
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<td>LPA</td>
<td>Lease Plus Agreement</td>
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<td>MHTs</td>
<td>Mental Health Trusts</td>
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<td>MVA</td>
<td>Market Value Added</td>
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<td>NAO</td>
<td>National Audit Office</td>
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<td>NATS</td>
<td>National Air Traffic Services</td>
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<td>NHS</td>
<td>National Health Service</td>
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<td>NPM</td>
<td>New Public Management</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>ONS</td>
<td>Office of National Statistics</td>
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<td>PAC</td>
<td>Public Account Committee</td>
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<td>PCT</td>
<td>Primary Care Trust</td>
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<td>PFI</td>
<td>Private Finance Initiative</td>
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<td>PPIAF</td>
<td>Public-Private Infrastructure Advisory Facility</td>
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<td>PPP</td>
<td>Public-Private-Partnership</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>PUK</td>
<td>Partnership UK</td>
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<tr>
<td>PWC</td>
<td>PriceWaterhouseCoopers</td>
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<tr>
<td>SDTCs</td>
<td>Specialist Diagnostic Treatment Centres</td>
</tr>
<tr>
<td>ShA</td>
<td>Shareholder Agreement</td>
</tr>
<tr>
<td>SHA</td>
<td>Strategic Health Authority</td>
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<tr>
<td>SOEs</td>
<td>State-Owned Enterprises</td>
</tr>
<tr>
<td>SPA</td>
<td>Strategic Partnering Agreement</td>
</tr>
<tr>
<td>SPB</td>
<td>Strategic Partnering Board</td>
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<tr>
<td>SPV</td>
<td>Special Purpose Vehicles</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>VFM</td>
<td>Value For Money</td>
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<tr>
<td>WAA</td>
<td>Wrap-Around Addition</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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Chapter One: Introduction

1.1 Introduction

Traditionally, the public sector has led in the direct provision of public infrastructure, services, and distribution of national wealth (Harvey, 2005; Steger and Roy, 2010; Whitfield, 2010). Also, it is run by people and authorities who are publicly accountable with a high expectation of probity, openness and transparency (Public Administration Select Committee, 2002). Its accountability and governance practices have generally been rule-based, emphasising staff satisfaction and quality of universal public service (Ramos and Skalen, 2006). In the health sector, clinical staff have been guided in the performance of their public services, by their Hippocratic Oath, which places precedence on saving life (Lawrence et al., 1997). This traditional view characterizes what is referred to as the public sector/service ethos (Public Administration Select Committee, 2002).

In the last thirty years, there has been a progressive involvement of the private sector in the public sector, both globally and in the UK. This is part of a shift to a wider neoliberal policy, which promotes the superiority of the private sector and the market mechanism (Harvey, 2005; Whitfield, 2010).

The neo-liberal policy began by problematizing the traditional ways of accountability, governance, delivery of public services and distribution of national wealth as inefficient, expensive and not modern (Broadbent and Laughlin, 2005; Steger and Roy, 2010). It then proceeded with initiatives such as privatisation of state-owned enterprises, deregulation and reforms in the public sector, outsourcing of non-core public services and introducing private sector modes of accountability and governance into the public sector (Broadbent and Laughlin, 2005; Whitfield, 2010). Subsequently, and over time, variants of Public-Private Partnerships (PPP) schemes have inundated the public sector across the globe (Hodge et al., 2010, Whitfield, 2010). Some of the key areas that remain concerning in respect of these PPPs are in relation to the accountability and governance including, scrutiny and oversight practices (Shaoul et al., 2012). Also, Parker (2007) observes the broadening challenge for corporate governance research.
This thesis aims to contribute to addressing these accountability and governance concerns within the health sector, which is identified as one of the sectors inundated by PPP activities, particularly in the UK (Treasury, 2012; Whitfield, 2010). Specifically, it does this by examining the case of Local Improvement Finance Trust\(^1\) (LIFT), a public private joint venture partnership in the UK’s primary health care sector.

The concepts of accountability and governance have attracted considerable attention in accountability research (Broadbent and Guthrie, 2008). However, it is widely noted that they are complex (cf. Bovens, 2010). Therefore, this study seeks to identify a broader scope and a composition of accountability and governance that could help draw a boundary between what does and does not count as such.

This study views the world as social and therefore does not simply describe it as if it is part of a given nature; it seeks a social analysis that is an in-depth, contextualised and socio-technical understanding of financial accountability and governance practices. This raises questions about how the objective and technical features of society may or may not influence human agency and vice versa (Archer, 2003; Giddens, 1984). This makes the structures of society and human agency central variables in social analysis and therefore essential variables in this study.

**1.2 Motivation for the Study**

This study is motivated broadly, in three ways. Firstly, there are concerns in the literature and calls for the need for more socio-technical research to complement the structure and human agency focused studies. Secondly, PPP is significant in terms of cost to UK taxpayers and potential lessons for other countries using or hoping to use the PPP format in delivering public infrastructure and services. Thirdly, my professional knowledge, background, prejudices, research training and career incentives have collectively led me to question and shape my perception about this study and my role in it.

The existing limitations and concerns in the literature that motivate this study can be summarised as follows:

\(^{1}\) This is explained in section 1.3 research context.
Despite the existence of much research falling in the technical and social constructionist categories, there is an established view of a dichotomous relationship between structures and human agents. This has been criticized for the inability to reveal the way in which human agents draw on norms, institutionalized knowledge and on certain resources to skillfully produce social order while concurrently reiterating the influence of social structure (Kilfoyle and Richardson, 2011). And each of these categories loses sight of the recursive interaction between structures and human agency and each is thus not able to unveil the complexities associated with financial accountability and governance practices (Yang, 2011).

Some have acknowledged the constitutive character of accounting, namely that PPPs drive accounting and accounting drives PPP (cf. Broadbent and Guthrie, 2008; Jones and Mellett, 2007) and the unresolved tension between the nature of external financial reports and the conceptual basis informing their construction (cf. Broadbent and Guthrie, 2008). Others have noted the politico-commercial-legal tensions in the manner in which PPPs are accounted for (Stafford et al., 2010). By focusing on either structures or human agency as separate and independent entities, it becomes very difficult to reveal the constitutive aspects of PPP accounting and also difficult to resolve the tension between structures and accounting and governance practices.

Some studies outside accounting and governance have suggested that in order to move beyond structures and human agency focused studies, we should turn to concepts such as enactment, emergence, learning, contradictions and improvisation to help explain the new ways of social practices (Orlikowski, 2000; 2007; 2010).

Accordingly, there has been criticism of the predominant application of deterministic and interpretivist theories as essentially telling part of a complex story (Kilfoyle and Richardson, 2011; Yang, 2011).

My encounter with the empirical data raises a point in this study that the existing literature is only part of the story and that there is a more complex story because of the ongoing influence and continuous intervention of human agency in both financial accountability
and governance practices. Therefore, a social constructionist-based research that focuses on recursive interaction between structures and human agency and is able to theorise enactment, emergence, learning, change, contradictions and improvisation is taken as one appropriate approach to conduct research into financial accountability and governance.

Broadly, there have indeed been calls for more socio-technical financial accountability and governance studies that would examine the interaction between the structures and human agency and would give a considered attention to context (Broadbent, 2012; Broadbent and Guthrie, 2008 and Whittington, 2011). Also, Hodge et al. (2010) call for a multi-disciplinary approach to empirical study of PPPs.

One appropriate perspective that can be used in response to these calls and to attempt to deal with the concerns raised about the literature is Giddens’ structuration theory. The appropriateness of Giddens’ structuration to capture the synchronised interaction between structures and human agency is noted in some accounting literature. There have been calls to use Giddens’ structuration theory to re-examine the relationship between structures and human agency in management accounting and accountability research to find synthesis between structures and human agency (Macintosh and Scapens, 1990; Roberts and Scapens, 1985; Yang, 2011). Indeed, there has been continuous and increasing application of Giddens’ structuration theory to examine the interaction between structures and agency in management accounting research including these: Ahrens and Chapman, 2002; Coad and Herberth, 2009; Conrad, 2005; Englund and Gerdin, 2008; Gurd, 2008; Kilfoyle and Richardson, 2011. However, the response has not been entirely comprehensive.

A recent study puts the total number of published accounting studies genre (management accounting, financial accountability and governance) that have drawn on some central notions of Giddens’ structuration theory at about 65 (Englund et al., 2011) but of these there are five that examine financial accountability and governance broadly defined as those that focus on corporate governance mechanisms such as the use of profit and loss accounts, balance sheets and, the board of directors and its processes.

Put simply, Giddens’ structuration theory has not been widely used yet in financial accountability and governance studies. This is both a concern, because our understanding
of financial accountability and governance may be incomplete, and an inspiration, because it leaves a gap for further research on financial accountability and governance.

A continuous review of the literature and feedback from conferences, doctoral colloquia, and PhD review committee and, these calls make me believe that this thesis investigates a gap in the literature. The gap has persisted because of the dominant use of dualist theories and approaches.

Recently, Yang (2011) has strongly presented a case for structuration theory in financial accountability and governance and Englund et al. (2011) have called for stronger focus on day-to-day structuration processes and, especially, on how different types of accounting artefacts may or may not be implicated in the (re)production of organisational life. This study shares both the concern and the inspiration as it is believed that by using an approach based on structuration theory, the complexities of financial accountability and governance practices and in particular, the interaction between financial accountability and governance structures and human agency can be uncovered.

In order to add to the debate in the context of the above findings from the literature, this study takes a critical perspective (Burrell and Morgan, 1979; Chua, 1986; Dillard, 2008; Roslender, 2006), qualitative case study approach (Ahrens and Chapman, 2006; Humphrey, 2001; Humphrey and Scapens, 1996; Parker, 2008; 2012; Ryan et al., 2002), which is based on interviews and publicly available data. It then draws on Giddens’ structuration theory, which enables a consideration of the recursive interaction between structures and human agency (Giddens, 1979; 1984 and 1993; Sewell, 1992). This approach is to help uncover complexities and understand the ongoing influence and continuous intervention of human agency in financial accountability and governance practices.

Also, the significance of PPPs in general and LIFT in particular has been another motivating factor in this study. In the UK, PPPs in general now inundate most sectors and services across the public sector both at the national and local levels. Recent information shows that signed Private Finance Initiatives (PFI) now total capital value of more than £70bn (Treasury, 2012). Also, since the launch of the LIFT scheme, some 49 LIFT joint venture companies that have been established have collectively built about 300 buildings
with a combined capital value of about £2.5bn (CHP, 2012). Whilst there has been a substantial research concentration on the PFI type of PPP, as yet the LIFT scheme has not received the same level of research attention, even though it raises a number of operational, accountability and governance concerns.

Significantly, it is estimated that between 2012/13 and 2049/50, the public sector will have to pay £241.94bn (in nominal terms and undiscounted) to private companies on signed Private Finance Initiative (PFI) deals up to March, 2012 (Treasury, 2012). As PFIs and PPPs in general continue to be the UK government’s preferred option to deliver public projects, the payments to private companies are likely to increase and thus continue to impose huge financial burden on public service delivery (Health Direct, 2010; 2011 and 2012). The accountability challenges in terms of both the policy itself and the accounting issues are of international relevance as the UK is a world leader in PPP developments (Whitfield, 2010).

Further, this study is motivated by my background, training and career incentives. It is noted that researchers are biased by their own background, knowledge and prejudices which together influence them to choose their research topic and see things in particular ways (cf. Dillard, 2008). It is therefore important that I disclose my background and extent of my involvement in this study for readers to know how I might have influenced the research process and its output.

I have a Bachelors’ degree in Business Administration, accounting option from the University of Ghana’s Business School. In addition, I have an MSc in International Development, Development Finance Option from the University of Manchester. I did a masters dissertation on privatisation in the context of neo-liberalism and find this context interesting. Then I completed a professional accountancy qualification and worked in accountancy for almost five years. My decision to undertake a PhD was to obtain a further training in research and to advance my knowledge in accounting and governance. This was to show that I can undertake a significant piece of research in order to achieve a career aspiration, which is to become an academic and a researcher.

Until some time into the PhD process, my view of accounting and governance was largely technical and taken-for-granted and my knowledge about research was mainly technical and quantitative oriented. I lacked any understanding and awareness of any alternative perspectives such as critical and interpretive research. After going through research methods training, attending internal faculty seminars, conferences and doctoral colloquia, and interacting with supervisors and engaging the literature, I then became aware of how impoverished my taken-for-grantedness of accounting and governance was. I have become inspired by the socio-technical view of accounting which seeks in-depth and contextualised understanding of accounting and corporate governance practices.

Therefore, as identified in the literature (cf. Dillard, 2008; Panozzo, 1997; Reiter and Williams, 2002; Schwartz et al., 2005; Williams et al., 2006) my motivation for this study is partly inspired by my research training, career incentives and institutional affiliations. I want to be part of a community of accounting researchers who seek socio-technical analysis of accounting and governance practices.

1.3 Research Context

Basically the study is located in PPP in the wider neo-liberal context. PPP is a policy which involves a clearly and detailed contract between the public and private sectors where the private sector both finances and expects to share the risks and rewards of the contract with the public sector. In return, the private sector gets an annual payment to cover cost of both the capital (debt and equity) and service elements (Shaoul et al., 2008a; Treasury, 2003). PPP takes many forms and includes PFIs, concessions, franchises and a range of joint ventures (Hodge et al., 2010; Whitfield, 2010).

Figure 1.1 shows a basic PFI structure. The PFI contractor is typically a consortium set up as a Special Purpose Vehicle (SPV), largely reliant on bank debts with no recourse to the parent company even though the parent company has control and ownership over it. This SPV operates through a complex web of subcontracting to sister companies. Depending on the contract the relevant public agency may assume or resume ownership of the underlying assets at the expiry of the contract, which is usually at the end of between 25 and 30 years (Shaoul et al., 2008a; 2008b).
By the early 2000s, it has become apparent that PFI investments have been attractive to mainly major, big and significant capital projects but did not work well in smaller settings such as schools and Primary Care Trusts (PCTs). This is because the bidding costs of small projects were disproportionately higher than the bigger projects (Treasury, 2003). In response, the government launched the LIFT scheme to attract capital investments to the small National Health Service (NHS) buildings (NHS Plan, 2000). Figure 1.2 shows a basic LIFT corporate structure.
Under the LIFT scheme, an equity capital shareholding joint venture LIFT Company (LIFTCo) is established. The LIFTCo is owned by local public sector entities, usually, PCTs, Local Authorities (LAs) and Community Health Partnership (CHP), a Department of Health (DoH) wholly owned company and a private sector partner. The LIFTCo’s objective is to plan, secure finance, build/refurbish and operate usually small, but community-based health and related facilities within the UK NHS. These facilities (LIFT buildings) are used mainly as PCT buildings and GP premises, although some also incorporate leisure facilities (Beck et al., 2010; NAO, 2005).

3 National Audit Office: responsible for auditing and certifying the accounts of all UK government departments and a number of other public sector agencies and non-departmental public bodies. It also carries out Value for Money (VFM) audit into the administration of UK government public policy.
There is a Lease Plus Agreement (LPA), which regulates the occupation of the LIFT building facilities particularly, the rights and responsibilities under the lease. Tenants of these facilities make payments to cover the cost of both the capital (debt and equity) and service elements (PAC\textsuperscript{4}, 2006).

The private sector partner in the LIFTCo may also be a consortium or a joint venture or a subsidiary of a much larger company. The LIFTCo sets up as a number of SPVs, which are largely reliant on bank debts and, which may have no recourse to any of the parent company, the LIFTCo or indeed, the private partner, even though the private sector partner by its majority equity share capital ownership has control over both the LIFTCo and the SPVs (Aldred, 2006; Beck \textit{et al.}, 2010; Mahmood, 2004).

The next section outlines the research questions and purpose of this study.

1.4 Research Questions and Purpose

The study is a social analysis of financial accountability and governance practices. There are two broad questions that the study seeks to address:

(1) What are the major financial accounting and governance issues in the LIFT scheme?

This question is addressed through two subsidiary questions. These are:

- To what extent do the corporate structures of the LIFT scheme complicate financial accountability and governance including external scrutiny?

- To what extent does the LIFT scheme enhance partnership working between the public and private sector partners?

(2) How can the financial accounting and governance issues be better explained using the social-institutional context of the LIFT scheme?

\textsuperscript{4} Public Accounts Committee – a UK Parliamentary Committee responsible for overseeing government expenditures to ensure they are effective and honest and is a mechanism for ensuring transparency and accountability in the UK government financial operations.
There are further more detailed questions about structures and human agency in financial accountability and governance and whether or not they interact. These are:

- What are the structures in financial accountability and governance in the LIFT scheme?

- Which human agents provide agency in financial accountability and governance in the LIFT scheme?

- Whether and in what ways structures and human agency in financial accountability and governance interact in the LIFT scheme and what are the implications?

The research aim was originally broadly defined as accountability in the NHS LIFT. However, as a result of continuous engagement with the empirical data and the literature and, drawing from Giddens’ structuration theory, the original aim was modified to the above questions. An explanation of how the empirical data and the literature review modified the research questions is at subsection 3.4.5. The study addresses the research questions by doing the following:

- By completing a concurrent examination of the literature and the empirical data search which helped identify a number of examples of accounting and governance issues, structures and human agency. As writing was also done concurrently with the examination of literature and empirical data collection, the purpose of the study and focus to the searching for new data and old writings were shaped. Broadly, emergent findings analyses shaped subsequent data collection which in turn shaped successive analyses.

- In order to position the study, the various conceptualisations of structures and human agency in financial accountability and governance were placed in three broad categories (examined in sections 4.3, 4.4 and 4.5). It became apparent that much research falls in the technical and social constructionist categories and that there is an established view of a dichotomous relationship between structures and human agency. This, the study finds to be only part of the story as there is more
complexity because of the on-going influence and continuous intervention of human agency.

- The study draws on the critical case study approach as the methodology and Giddens’ structuration theory for analytical purposes to investigate the recursive interaction between structures, reasons for stability and change in practice as well as contradictions in practice.

- The empirical data on which this study is based includes interviews with senior officials who have been involved with the chosen LIFT schemes, financial reports of relevant participating organisations, minutes of board meetings of these participating organisations, official government documents, commissioned and research reports, academic empirical literature and some commentaries in the media.

- Finally, the study combines the findings from the literature and from the case studies to address the research questions. As a result the research offers rich insight and implications for both research and practice.

1.5 Outline of the Thesis

This study is organised in seven further chapters. Chapter two explores the neo-liberal ideology, its mode of governance and its other related initiatives such privatization and similar activities including the development of PPP in general and the turn to LIFT. Further, the chapter presents the historical progression of PPPs and shows the distribution of PPPs as manifest in project type, capital value, and sector and country of application. In addition, it examines financialisation and the link between this and neo-liberal ideas, the link between financialisation and LIFT and any implications for financial accountability and governance.

Chapter three discusses the three main philosophical perspectives: positivist, interpretivist and critical and, briefly explains the critical realist perspective. It chooses the critical philosophy as one appropriate perspective for studying LIFT’s financial accountability and governance practices. It then examines both qualitative research methodologies and the case study research approach as being appropriate for this study. It discusses methods of
data collection such as interviews and publicly available data, and methods of data analysis.

Chapter four discusses the nature and scope of accountability to find out what does and does not count as accountability. The broader scope of accountability is adapted to determine a focus for this study which is financial accountability and governance. This chapter also examines the central variables of financial accountability and governance, highlighting the existing evidence on structures and human agency that are involved in the study of financial accountability and governance. Moreover, it examines ongoing discourse on the relationship between structures and human agency in financial accountability and governance research. The view of this study is that recursive interaction between structures and human agency based research is ideal for conducting research into financial accountability and governance in the LIFT scheme. It further considers the form that the recursive interaction might take and proposes the use of Giddens’ structuration theory.

Chapter five discusses Giddens structuration theory, more precisely, Giddens’ notions of social practice, the duality of structures and human agency. This is followed by two subsections which discuss in turn, continuity in practice and, changes in practice. Also discussed are the strengths and limitations of Giddens’ theory.

Chapter six presents the findings from the case study which involves two LIFT schemes in England. It examines governance in each case. Here, the workings of board of directors are explored to address a key governance issue of whether or not the LIFT schemes enhances partnership working, one of the UK government’s expected benefits of the scheme. Also, it examines whether the LIFT structures complicate accountability. Moreover, the chapter explores financial reporting and accounting in each case. It shows that because of the fiduciary duty of care to shareholders and finance capital, the reporting is finance-based. In addition, it explores the consolidation policies of the LIFT Companies involved in the two cases as well as the private sector partners. It further explores some other accounting issues involving the role of management accounting, related party transactions and tax benefits of the scheme. Also, it explores the financial reporting of the relevant local public sector partner organisations.
Chapter seven discusses and interprets financial accountability and governance practices based on Giddens’ structuration theory, highlighting the signification, legitimation and domination structures and human agency. It further examines contradictions, conflicts of interests due to structural contradictions. It considers stability and dynamism in practice and presenting financial accountability as emergent action, which involves enactment, learning, improvisation and entanglement.

Chapter eight provides the summary and the conclusion. It reviews and responds to the research questions, discussing how they have been addressed in the study. It also evaluates the study including the limitations of the study and its contributions to knowledge. The chapter offers recommendations for further research into financial accountability and governance practices. Finally, it presents the overall conclusion of the study and draws the thesis to a close.
Chapter Two: The Development of Public Private Partnerships in the UK and Internationally

2.1 Introduction

2.1.1 Aims and Objectives

In the UK and internationally, public infrastructure is increasingly being delivered through some form of Public Private Partnership (PPP) arrangement (Hodge et al., 2010; Whitfield, 2010; 2011). Prior studies have covered PPP as a policy and its different guises, but there has been considerable focus in these studies on stand-alone long term infrastructure contracts, such as those delivered under the UK PFI arrangements. This chapter benefits from these studies and seeks essentially to highlight some key features, particularly, the most persistent and general aspects of PPPs. The chapter thus considers broadly, three related complex circumstances surrounding the PPP policy. Firstly, there is neo-liberal foundation of PPPs including the extension to the Local Improvement Finance Trust (LIFT) scheme\(^5\). Secondly, this foundation promotes and reinforces elements of knowledge such as the need for primacy of shareholder, finance capital and financial returns. Thirdly, these elements of knowledge have some implications for accountability and governance in PPPs in general and LIFT in particular.

The essence of the approach is one which perceives that the emergence of PPP policy affects how its micro level implementations and operational activities, including, in particular, financial reporting and governance, are conducted. The insights drawn from this chapter serve, in part, as background to the empirical analysis of LIFT.

2.1.2 Outline of Chapter

This chapter is organised in four further sections. Section 2.2 examines the neo-liberal context of PPPs. It explains neo-liberalism, explores the history of PPPs in the UK, and presents the global presence of PPPs. It further explores the history of UK health PPPs and the extension to LIFT. Section 2.3 explains financialisation, and the link between it and neo-liberal ideas. In addition, it examines the link between financialisation and LIFT and implications for financial accountability and governance. Section 2.4 discusses LIFT

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\(^5\) Public Private Joint Venture Partnerships in the UK NHS
stakeholders and related conflicts and Section 2.5 concludes with a summary of the chapter.

2.2 Neo-liberalism

2.2.1 Introduction

This section explains the theoretical context of PPPs both in the UK and internationally, by outlining the official claims that underlie the use of PPPs. It does this by explaining the broader neoliberal agenda, whilst a later section emphasises the financialisation context within which the PPP policy is taking place. The underlying argument is that PPP emerged as part of broader neoliberal economic thinking. It is therefore important that this connection is presented as a relevant theoretical context for any study that involves PPPs in general and/or any specific guise of PPP. As the issue of neo-liberalism has been extensively explored, only essential points are highlighted. Also, though neo-liberalism is noted to be usually adapted to specific environment, problems and opportunities, and comes in several strands and variations (Steger and Roy, 2010), this chapter explains the general ideas.

The remainder of the section explains neo-liberalism and examines how the policy has transformed over the years, as this is important if we are to understand the influence and implications of its historical context for financial accountability and governance practices in PPPs.

2.2.2 Neo-liberalism: an Ideology, a Mode of Governance and a Policy Package

In the last thirty years, neoliberal economic thinking has influenced public policies of governments around the globe (Skalen, 2004). It subscribes to a set of ideological and political principles committed to the global spread of an economic model that emphasises free markets and deepened private sector involvement in the delivery of public services and infrastructure *inter alia* (Steger and Roy, 2010; Whitfield, 2010). This thinking problematises the state-led provision and allocation of national wealth and resources as inefficient and promotes private sector involvement as the efficient and better alternative for the way forward (Asenova and Beck, 2010; DoH, 2010; Harvey, 2005; Steger and Roy, 2010).
Neo-liberalism can thus be explained as the broader attempt to dismantle the welfare state. As Steger and Roy (2010:11) have noted, neo-liberalism manifests this attempt in three intertwined dimensions namely: first, ‘an ideology’; second, ‘a policy package’; and third, ‘a mode of governance’. Despite that these are intertwined, this chapter examines each in turn.

- **As an ideology**

In this respect, neo-liberalism is taken as shared ideas that are accepted by significant groups\(^6\) as truth. These truth claims are taken by these groups not only as offering a coherent picture of the world as it is but also as it ought to be. Therefore, neo-liberalism organises its central ideas into rather ‘simple truth-claims’ that encourage for example, governments and people to act in certain ways\(^7\) (Steger and Roy, 2010:11). These claims are mobilised by some powerful supranational economic institutions such as the World Bank (WB), the International Monetary Fund (IMF), the European Union (EU) and the World Trade Organisation (WTO) and other supporters to legitimise and defend certain political interests such the interests of the private sector, and to challenge what they describe as excessive and inefficient involvement of the state in our economic and political lives (Asenova and Beck, 2010; DoH, 2010; Harvey, 2005; Steger and Roy, 2010). These institutions and supporters, including global power elites such as managers of large transnational corporations, corporate lobbyists, the accounting profession, some influential academics and politicians, have argued that too much government regulations and excessive public spending have been responsible for poor economic growth across the globe in the 1970s (Harvey, 2005; Steger and Roy, 2010).

As the leading supporters of neo-liberalism, these institutions and the global elites have over the years, inundated the public discourse with idealised metaphors of consumerism and free market world such as restoring financial health (financial competence), a healthy balance between revenue and cost, and accounting language (Craig and Amernic, 2002; 2004; 2006 and 2008). They have sought to require governments to reconfigure the way public projects (infrastructure and services) are financed and delivered (Whitfield, 2010).

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\(^6\) The significant group is broadly defined here to include the supranational institutions, the global elites and supporters of neo-liberalism (Steger and Roy, 2010).

\(^7\) These are reflected in the mode of governance and policy package dimensions to be described shortly.
In most cases, IMF and WB imposed neo-liberal ideas on heavily indebted developing countries in return for much needed financial assistance (Agyenim-Boateng, 2004; Harvey, 2005).

Also, and with dexterity, the global elites have networked with governments to sell the neo-liberal ideas by representing them positively as indispensable tools and processes that could further individual self-determination and material advancement in the world (Harvey, 2005; Steger and Roy, 2010). This assertion was to convince people and governments that they must embrace neo-liberalism because it would enhance individual freedom and economic wealth.

UK academics have documented how the accounting profession, private sector advisors and the construction industry have collaborated with the UK government on various versions of neo-liberalism (cf. Pollock, 2005; Shaoul, 2011; Shaoul et al., 2007a; 2008a). These studies have shown how the collaborators from the private sector have been in-charge of the policy as they advise, implement and benefit in terms of fee income and profit from the business opportunities that come along.

• **As a policy package**

Neo-liberalism, in this respect, has been expressed in (1) the privatisation of state-owned enterprises and (2) the marketisation process described as ‘*the process which requires the state to structure for competition and market mechanism*’ (Whitfield, 2010:67). These two broader policy areas are now explained in turn.

Privatisation was to promote outright sale of state-owned enterprises (SOEs), a policy which was predominant in the early 1980s across both developed and developing worlds (Agyenim-Boateng, 2004; Harvey, 2005; Steger and Roy, 2010). The broad argument was that privatisation would make the privatised SOEs more efficient, productive, and therefore make countries that privatised their SOEs, competitive relative to those who would not privatise (Agyenim-Boateng, 2004; Harvey, 2005; Steger and Roy, 2010; Whitfield, 2010).

Generally, a large number of SOEs across the globe were offered to private sector investors at substantially reduced prices (Agyenim-Boateng, 2004; Shaoul, 1997; Steger
and Roy, 2010). While it was anticipated that the new owners would upgrade the enterprises for better performance than before privatisation (Steger and Roy, 2010), this expectation was not entirely realised. This is because some had failed including Network Rail (in the UK) which the UK government has had to renationalise with some massive financial consequences for the tax payer (Jupe, 2009; Shaoul, 1997). Note that the operators of Network Rail are still private.

Also, as new institutional arrangements came to define how the public services and project were to be delivered, governments and public sectors around the world found themselves increasingly drawn into a marketisation policy. This promoted a restructuring of public businesses by developing internal markets in the public sphere and created a pro-business environment (Pollock, 2005; Steger and Roy, 2010; Whitfield, 2010). It also allowed for competition and market mechanisms, thus permitting a wider role for the market, the private sector and private finance capital in the public sector economy (Dunleavy, 1986; Harvey, 2005; Hood, 1991; 1995; Pollock, 2005). The most significant marketisation policies can be broadly categorized into five activities (Whitfield, 2010) which are explained as follows.

- Firstly, the promotion of commodification and commercialisation of public service. Following this, public sector agencies and services at both the local and central government levels were to be reorganized in ways that can be specified and packaged in contracts. This served to increase the opportunity to subject public services to market mechanisms and to outsource them because they were to be quantified and priced. So for example health care can be quantified and priced like any commodity one can find on the market (eg. Pollock, 2005).

- Secondly, the promotion of commodification and commercialisation of labour. Labour was to be reorganized in ways that assist transfer of labour between employers, thus enabling labour flexibility and use of agency labour. So for example, as has happened in the UK’s Social Housing sector with the setting up of direct labour organisations, housing maintenance can be outsourced to these organisation through some form of competitive tendering (Smyth, 2012).
• Thirdly, the embedding of business interests in public policy and the promotion of liberalization internationally. The marketisation policy sought to make the private sector become more involved in the public policy making processes and promoted national and international liberalization of public services (see Shaoul, 2011; Steger and Roy, 2010).

• Fourthly, the promotion of restructuring of democratic accountability and user involvement, namely that public service users were to be treated as consumers and services were to be transferred to experts and outsourcing firms. This situation has been described as governance by experts and elites (Harvey, 2005), which can contribute to undermining democratic governance because these experts are not necessarily accountable to the general public (Asenova and Beck, 2010; English and Guthrie, 2003; Shaoul et al., 2012).

• Fifthly, the promotion of restructuring of the state for competition and market mechanism. Through this, public sector agencies such as schools and hospitals are compelled to compete against each other for funding. So for example, the NHS’ role becomes one of commissioning and creating opportunities for service delivery contracts and private finance from private sector organisations (eg. Hodge et al., 2010; Pollock, 2005; Shaoul et al., 2008a; 2008b; Whitfield, 2010).

The fourth activity briefly explained above reflects the broader New Public Management (NPM), a mode of governance which is a dimension of neo-liberalism. As this dimension is particularly important for the purposes of this study, it is explored in-depth under the third dimension of neo-liberalism shortly as a mode of governance.

Also, the fifth marketisation activity is related to PPP and can be extended to LIFT, the focus of the empirical analysis. The view of this study is that in order to understand LIFT, it is important to understand its historical context. Therefore, this is explored in-depth in subsection 2.2.3.
• **As a mode of governance**

Here, neo-liberalism reflects the promotion of a mode of governance based on governmentality technologies that are taken from the world of business and commerce. These technologies are collectively referred to as the NPM agenda (Hood, 1991; 1995). However, it can be depicted as multifaceted because it has over the years and across the globe involved a multitude of ideas (Broadbent *et al.*, 1996; Ferlie *et al.*, 1996; Hood, 1991; 1995; Lynn, 1998; Power, 1997; Ramo and Skalen, 2006; Skalen, 2004; Steger and Roy, 2010). Predominant among these ideas are mandatory deployment of strategic plans and risk management scheme, cost-benefits analyses, efficiency calculations, quantitative targeting, close monitoring of financial outcomes in the public sector. Others include the creation of highly individualised, performance-based work plans, and the introduction of rational choice models that internalise and normalise market-oriented behaviour. All these are oriented towards the creation of financial surpluses (Ramo and Skalen, 2006).

Table 2.1 summarises some general official requirements and claims as well as some fundamental implications for reporting, demanding and giving of reasons for conduct under the NPM arrangements.
Table 2.1: NPM requirements, justifications, and implications

<table>
<thead>
<tr>
<th>NPM requirements</th>
<th>Justifications</th>
<th>Implications for accounting and governance</th>
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<tbody>
<tr>
<td>Corporatising public sector organizations</td>
<td>Makes them manageable</td>
<td>Commercial responsibility, responsibility centres</td>
</tr>
<tr>
<td>Introduction of competition</td>
<td>Leads to lower cost</td>
<td>Emphasising the need to identify and understand costs and cost becoming commercially confidential</td>
</tr>
<tr>
<td>Emphasising private sector management styles</td>
<td>Able to use proven private sector management tools</td>
<td>The need for private sector accounting technology: profit and loss accounts and balance sheet, Board of directors</td>
</tr>
<tr>
<td>Frugality in the use of resources</td>
<td>Able to reduce cost</td>
<td>The need to emphasise the bottom line, profitability, profit and loss, matching assets and liabilities</td>
</tr>
<tr>
<td>Emphasising result, output</td>
<td>Result and output better compliance with procedures</td>
<td>The need to link results, output with rewards and incentives</td>
</tr>
<tr>
<td>The need for hands on professional management</td>
<td>Able to freely manage</td>
<td>The need to clearly assign responsibility for action, more use of financial data for management accountability</td>
</tr>
<tr>
<td>The need for measurable standards for success</td>
<td>Success means hard look at goals</td>
<td>Performance indicators expressed in money and time</td>
</tr>
</tbody>
</table>


NPM thus suggests a need for some supposedly objective techniques to deliver financial outcomes. While the NPM requirements are supposed to be technical and devoid of any political underpinnings (Lynn, 1998), a number of concerns have been raised. Amernic and Craig (2009); Craig and Amernic (2002; 2004; 2006 and 2008), find them as concerning rhetoric and metaphorical. Pollock (2005); Shaoul (2005) see NPM’s emphasis on financial outcome as leading to a case of subordinating the public interest ethos to financial interest. Ramo and Skalen (2006) have likened NPM to what is described as a dominance of speed over closeness. This is that as a result of NPM, a paradigm of speed (return on finance capital as used and calculated in finance) prevails over a paradigm of closeness (satisfied staff and quality care service as used and qualitatively determined in health care). Ramo and Skalen (2006) are concerned that it would be paradoxical for one to want to achieve speed and closeness at the same time.
2.2.3 Implementation of PPPs in the UK

Consistent with the fifth element of the marketisation policies explained above, governments have used variations of PPP initiatives to bring private finance into the delivery of public sector projects. The historical progression of these initiatives, covering the initial response from the private sector, the changes that have emerged across time and variety of PPPs that have emerged are explored here.

The historical development of PPP in the UK can be traced from the early 1990s. In 1992, the UK’s Conservative government launched PPP, using private finance for the development of stand-alone public infrastructure projects. Some narratives and official claims that featured the launch reveal the neoliberal connection of PPP and may be relevant in evaluating and discussing the merits of PPP in practice. Mr. Norman Lamont, the then Chancellor of the Exchequer stated *inter alia* that:

> ‘In future, any privately financed project which can be operated profitably will be allowed to proceed. This should be widely welcomed, particularly by the construction industry’

From the outset, any disputes that might have existed in terms of whether PPP would be a good investment proposition or not were resolved in favour of finance capital and the private sector by the government’s pledge to allow only the profitable ones to proceed.

However, the private sector’s immediate response to the PPP policy, in terms of the number of PPP projects taken up, was on the low side, suggesting that the PPP was not initially an attractive proposition. The difficulties that the government faced included lack of experience on the part of the Public Authorities, legal difficulties and the broader political resistance at the time (Shaoul *et al.*, 2008a).

The government’s response was to seek to promote the policy further by making it more attractive to the private sector. One of the measures that the government took was to set up a PPP office within the Treasury with a panel headed by the Chairman of Eurotunnel, the

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8 Eurotunnel was one of the first PPP projects in UK and as it turned out, a very costly cross border PPP project which completed with a seven year delay and at a cost of £5bn, accessed at [http://www.adbi.org/working-paper/2011/05/13/4531.financial.instruments.ppp.infrastructural.dev.eu/illustrative.examples.of.ppp.in.the.eu/](http://www.adbi.org/working-paper/2011/05/13/4531.financial.instruments.ppp.infrastructural.dev.eu/illustrative.examples.of.ppp.in.the.eu/) on 31/05/2012
first PPP project, Sir Alistair Morton and the office was essentially staffed by experts from the private sector consultancy firms (Shaoul et al., 2007a:482; 2008a:16).

Interestingly, the New Labour government, which had opposed the policy while in opposition, embraced it with enthusiasm (Heald, 2003). Private involvement in the financing and delivery of public infrastructure and services became ‘one of the key policies’ of the last New Labour government (Edwards and Shaoul, 2003:397; Shaoul et al., 2007a). It gave new impetus to the PPP policy by taking a series of measures. Significantly, it set up the Treasury Taskforce, in 1997 which was to be a focal point for all PPP activities in the public sector. Importantly, and as had been done by the Conservative government under its PPP office, the Treasury Taskforce was staffed by experts from the private sector (Shaoul et al., 2008a).

New Labour indeed, deepened the involvement of the private sector consultancy firms in the development of the PPP policy, PFI project appraisal and implementation. For financial advice regarding the policy, the government relied often on the Big Four international accountancy firms and for technical advice on a few consultancy firms such as Ove Arup, Halcrow, Mott Macdonald and W S Atkins (Shaoul et al., 2008a:34). Shaoul et al. (2007a) describe the involvement of the private sector in PPP as akin to privatization of public policy, a case of reinforcing the authoritative resources of the private sector in PPPs.

The private sector consultants not only advised the government but also advised the private sector participants and in some cases have had vested interest, that is, they are equity holders, or subcontractors, or sister companies have equity stakes or are subcontractors, all with significant governance implications (Shaoul et al., 2007a). This obviously heightens the uncertainties and ambiguities around the policy especially in terms of conflicts of interests. However, this has not stalled the progress of PPPs, at least in terms of project take-ups.

The private financing of public projects progressed heavily under the last New Labour government (1997-2010). The PPPs and other marketisation initiatives have had different models ranging from a typical public procurement programme, by which a public sector agency purchases capital items in the form of public infrastructure from the private sector, to outsourcing, by which the private sector is contracted to deliver some services. Different
guises of PPP which have inundated the UK public sector since its launch are presented in Table 2.2 below.

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Description</th>
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<tbody>
<tr>
<td>Build-own-operate (BOO)</td>
<td>The private sector designs, builds, owns, develops, operates and manages an asset with no obligation to transfer ownership to the government. These are variants of design-build-finance-operate (DBFO) schemes.</td>
</tr>
<tr>
<td>Build-develop-operate (BDO)</td>
<td></td>
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<tr>
<td>Design-construct-manage-finance (DCMF)</td>
<td></td>
</tr>
<tr>
<td>Buy-build-operate (BBO)</td>
<td>The private sector buys or leases an existing asset from the government, renovates, modernizes, and/or expands it, and then operates the asset, again with no obligation to transfer ownership back to the government.</td>
</tr>
<tr>
<td>Lease-develop-operate (LDO)</td>
<td></td>
</tr>
<tr>
<td>Wrap-around addition (WAA)</td>
<td></td>
</tr>
<tr>
<td>Build-operate-transfer (BOT)</td>
<td>The private sector designs and builds an asset, operates it, and then transfers it to the government when the operating contract ends, or at some other pre-specified time. The private partner may subsequently rent or lease the asset from the government.</td>
</tr>
<tr>
<td>Build-own-operate-transfer (BOOT)</td>
<td></td>
</tr>
<tr>
<td>Build-rent-own-transfer (BROT)</td>
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</tr>
<tr>
<td>Build-lease-operate-transfer (BLOT)</td>
<td></td>
</tr>
<tr>
<td>Build-transfer-operate (BTO)</td>
<td></td>
</tr>
<tr>
<td>Franchising, Monetising</td>
<td>Public authority contracts a private company to manage existing public infrastructure</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>Contracts private sector to deliver a public service for a fee.</td>
</tr>
<tr>
<td>Joint ventures</td>
<td>Both private and public sectors contribute capital but private sector has overall control over the project</td>
</tr>
</tbody>
</table>

(Source: IMF, 2004; Mckee et al., 2006; Shaoul et al., 2007b; Whitfield, 2010)

The most dominant type of PPP in UK is modelled around, Design, Build, Finance, Operate, (DBFO) under PFI (see Barlow and Koberle-Gaiser, 2008; Shaoul et al., 2007b). Under this, the private sector, on the basis of output specifications agreed with the public sector managers and their departments, designs, builds, finances, usually, via debt finance and operates public facilities. The public sector does not own the underlying asset, such as a road, hospital or school buildings but pays the private sector, through an SPV, a stream of committed revenue payments for the use of the facilities over the contract period, usually, some 25 to 30 years (Shaoul et al., 2008a and 2008b). Once the contract has expired, ownership of the asset either remains with the private sector contractor, or is returned to the public sector, depending on the terms of the original contract.
Some individual PPP transactions were short-lived and had to be bailed out by the government. Notable examples are the National Air Traffic Services (NATS) and Metronet which had to be rescued by the government in order to meet their financial obligations\textsuperscript{9} to finance capital (NAO, 2009a; Shaoul, 2003).

Nevertheless, the dominance of PPPs in the UK is never in doubt as they have permeated almost all aspects of the public sector life. The exact number of PPP projects is difficult to ascertain because while Whitfield (2010) put the number as at June 2009 at 910 and the defunct PUK’s last count put the number at 920 (PUK, 2012), the Treasury’s most recent information put the number of PPPs at 717 (Treasury, 2012\textsuperscript{10}). Table 2.3 thus presents an indicative distribution of PPP projects with their capital values across government departments in the UK. This shows significant progress given that by the end of 1996, there were only 62 projects that had been signed (Shaoul et al., 2008a:17). Transport, health and education are identified as the sectors with the highest capital value projects.

\textsuperscript{9} The UK government through the Department for Transport (DfT) made £1.7 billion of grant available to help London Underground to meet the spending obligations that metronet was unable to meet. The size of financial obligation that the UK government had to help NATS to deal with was £1.46 billion.

\textsuperscript{10} In this report, Treasury admits that the information is not audited and that expired and terminated PPP contracts are not included. Also, the author could not find the two LIFT schemes that this present study’s empirical analysis is based on which means that the Treasury report is not exhaustive enough.
Table 2.3: Signed PPP projects in UK

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of projects</th>
<th>Capital value of projects (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>225</td>
<td>9,925</td>
</tr>
<tr>
<td>Health</td>
<td>279</td>
<td>13,650</td>
</tr>
<tr>
<td>Housing</td>
<td>26</td>
<td>1,665</td>
</tr>
<tr>
<td>Transport</td>
<td>66</td>
<td>26,079</td>
</tr>
<tr>
<td>Regeneration</td>
<td>2</td>
<td>610</td>
</tr>
<tr>
<td>Leisure</td>
<td>14</td>
<td>252</td>
</tr>
<tr>
<td>Property</td>
<td>7</td>
<td>315</td>
</tr>
<tr>
<td>Information Communication Technology (ICT)</td>
<td>83</td>
<td>3,412</td>
</tr>
<tr>
<td>Equipment</td>
<td>36</td>
<td>4,782</td>
</tr>
<tr>
<td>Environment</td>
<td>57</td>
<td>3,816</td>
</tr>
<tr>
<td>Prisons</td>
<td>16</td>
<td>564</td>
</tr>
<tr>
<td>Other accommodation</td>
<td>99</td>
<td>6,705</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>910</strong></td>
<td><strong>71,775</strong></td>
</tr>
</tbody>
</table>

(Source: Whitfield (2010:150))
Also, Figure 2.1 shows the number of PPP transactions closed with their capital cost in each year since the early 1990s to 2012.

Figure 2.1: Number of PPP projects and their capital values\(^\text{11}\), 1992-2012


The next subsection outlines the international presence of PPPs.

### 2.2.4 The International Presence of PPPs

The trend towards private sector involvement in the public sector has become widespread across the globe as there has been appreciable global acceptance of the PPP policy option (DLA Piper, 2009; Hodge *et al.*, 2010; Whitfield, 2010). The global presence of PPPs has developed in phases depending on a combination of factors. As Whitfield (2010:142), commenting on the global presence of PPP, has observed:

\(^{11}\) According to the report, the numbers and capital values do not include expired and terminated PPP transactions.
PPP has developed in phases, depending on the clarity of legislation, the establishment of PPP units in government departments, financial and construction companies perspective on the market potential and government commitment, the willingness of public bodies to initiate projects, the quality of projects and the level of political opposition.

In mainland Europe, the coverage of PPP has increased significantly over the last twenty years, ranging from outsourcing and management contract to PFIs and as in the UK, particularly in the health sector (Whitfield, 2010). However, it is worth noting that while the EU has been very active in setting out the operational and institutional framework for this surge, the European International Bank (EIB)’s role in terms of funding the PPPs cannot be discounted. The EIB\(^{12}\) is Europe’s foremost financier of PPPs (DLA Piper, 2009; Whitfield, 2010), highlighting the role of financial institutions, in particular the banks in PPPs.

In North America, in particular, US and Canada, PPPs are being used. Predominant among these is what Boardman and Vining (2010) conceptualise as P3, which involves Finance (F), Design (D), Build (B), Operate (O), Maintain (M) and Transfer (T) of public project. The P3 model does not always transfer the project immediately to the public sector. Where transfer is not immediate, this model becomes similar to some DBFO road PFIs in the UK but where transfer is immediate, it becomes the DBFT equivalent in the UK.

There is also in the US, a guise of PPP, described as asset monetisation through which public infrastructure is leased between 35 and 99 years to a private consortium (Hodge et al., 2010 Whitfield, 2010). While this is not used in Britain and mainland Europe, there is a serious consideration for it in Canada (Whitfield, 2010).

While there is variation in terms of the capital value and coverage of PPP in both US and Canada, both countries are promoting the PPP idea using public agencies usually at state level in US and at provincial level in Canada (Boardman and Vining, 2010).

In both the US and Canada, the influence of private finance is very evident as in other countries and regional blocks. For instance Goldman Sachs, JP Morgan, Citigroup and many more have been ever present in the US PPP projects either as financial advisors or private partners (Whitfield, 2010). In Canada, it is no different as banks such as the

\(^{12}\) It has a portfolio of 120 PPP projects with a capital value of 25bn Euros by 2009.
Macquarie Group and the Royal Bank of Scotland are identified as major financiers of PPPs (Boardman and Vining, 2010). Australia is another major international player with transport, health and prison PPPs (Whitfield, 2010).

PPPs are also being progressively promoted and implemented in the developing world where the World Bank has particularly been involved in their promotion\(^\text{13}\) (Whitfield, 2010). In the last ten years, over 40 countries in Sub-Saharan Africa have implemented some 240 infrastructure PPP projects with a capital value of some US$48bn (PPIAF, 2009a; 2009b; 2010). Latin America has as well been very active in the PPP transactions with Mexico, Argentina, Brazil, Chile, Columbia and Peru accounting for over 90% of the region’s total PPP transactions (Whitfield, 2010). Taxpayers in the developing world are particularly vulnerable since most of the private participants are big businesses with the backing of the World Bank, who will dictate the terms of the PPP deal. In a particular failed road PPP in Mexico, government guarantees alone cost the taxpayers between US$7bn-US$12bn (Whitfield, 2010).

As this present study’s empirical analysis is located in the health sector, Table 2.4 summarises some of the PPP mechanisms that are being used in the health sector in the UK and internationally.

\(^{13}\) Most of the signed deals are in the areas of energy, telecoms, transport and water and sewerage and the private involvement in these areas include inter alia, concessions, management and lease contracts.
Table 2. 4: PPP mechanisms in health care

<table>
<thead>
<tr>
<th>PPP mechanisms</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchising</td>
<td>Public authority contracts a private company to manage existing hospital</td>
</tr>
<tr>
<td>DBFO (design, build, finance, operate)</td>
<td>Private consortium designs facilities based on public authority's specified requirements, build the facility, finances the capital cost and operate their facilities</td>
</tr>
<tr>
<td>BOO (build, own, operate)</td>
<td>Public authority purchases services for fixed period (say 30 years) after which ownership remains with private provider</td>
</tr>
<tr>
<td>BOOT (build, own, operate, transfer)</td>
<td>Public authority purchases services for fixed period after which ownership reverts to public authority</td>
</tr>
<tr>
<td>BOLB (buy, own, lease back)</td>
<td>Private contractor builds hospital; facility is leased back and managed by public authority</td>
</tr>
<tr>
<td>Alzira model</td>
<td>Private contractor builds and operates hospital, with contract to provide care for a defined population, paid for by capitation fee.</td>
</tr>
<tr>
<td>Independent Sector Treatment Centres (ISTCs)</td>
<td>Specialist diagnostic and treatment centres to be run by the private sector and the NHS as joint ventures or solely, the private sector</td>
</tr>
<tr>
<td>LIFT</td>
<td>Both private and public sectors contribute capital but the private sector takes overall control over the project</td>
</tr>
</tbody>
</table>

(Source: Acerete et al., 2011; McKee et al., 2006; PWC²⁴, 2005; Shaoul et al., 2007b; 2008a; Whitfield, 2010).

Of particular relevance to this thesis is PPP as developed over the years in the UK health sector. Like many public policies, and as noted by Broadbent and Laughlin (2005); Shaoul (2003) and Shaoul et al. (2008a) the PPP policy have been ambiguous as the objectives and rational have changed across time. There was a macroeconomic argument which, was that PPPs would make it possible for the public sector to access capital investment which the government could not provide without breaching any conditionalities under the Maastricht Treaty. There is also, the microeconomic argument, which justified PPP in terms of lower financial costs, cost of risks transferred to the private sector and therefore delivering value

²⁴ PriceWaterhouseCoopers, is a private accounting and consulting firm, which has played a significant role in the PPP in terms of advice and implementation.
for money (VFM). VFM was always the basis of evaluating PPPs and other similar initiatives such as outsourcing.

However, as the government now concedes that the cheaper option is not necessarily VFM, and that it is yet to identify a measure for VFM (NAO, 2005; Treasury, 2010a), it can be seen that the government is losing the VFM argument. More recently, it is rather emphasising partnership working between the public and private sectors as a very important benefit of PPPs (Treasury, 2010a; Rassell, 2008).

The government introduced another important measure, the LIFT policy, aimed at increasing the role of the private sector in small PCT building projects. It sought to overcome the reluctance of the private sector to invest in small projects, which because of high initial bidding cost offered little opportunity for profits. The remainder of the chapter outlines the extension of PPP to the LIFT policy in the UK health sector and examines financialisation as it relates to PPP. It is, *inter alia*, to buttress a point that PPPs are ambiguous and transient. It is important because disputes that exist about the meaning of the various guises of PPP are often resolved in favour of the more powerful: finance capital and the private sector. These are powerful as they wield significant allocative resources (power to control the flow of investment capital) and authoritative resources (power to monitor and govern PPPs).

### 2.2.5 Background to the LIFT Policy and the Context of the UK Health Sector

There are twofold aims for this section. The first is to provide a background that offers an organisational context for the study of financial accountability and governance in LIFT. It is based on official government documents and commissioned reports, academic empirical literature and some commentaries in the media. It achieves this aim by (1) describing briefly the UK health system (herein referred to as the NHS), (2) showing where and how the PCTs fit in the NHS and (3) further highlighting the opportunities and challenges in the NHS in general and in particular, the PCTs. While mindful that the NHS covers the whole of the UK, this background puts particular emphasis on England where the LIFT policy is located (Aldred, 2006; Beck *et al.*, 2010).
The second provides a historical background to LIFT. It does this by explaining the use of PFI in the UK health sector and why LIFT was initiated. Since LIFT was introduced as a solution to the problems associated with government’s decision on how PFI was to be used, the section describes PFI in the health sector and how it contrasts with LIFT. In this regard, a summary of some key issues around PFI and some reasons used by supporters of LIFT who promote it as an appropriate alternative to PFI are described. Also, some concerns about the LIFT policy are noted. Here, too, the aim is to offer a context for the study of financial accountability and governance as part of social and organisational change.

- **The NHS in England**

In England, as in the UK in general, the health care system is the NHS. The current structure of the NHS in England is illustrated in Figure 2.2 below showing the various stakeholders, lines of accountability and flow of funding.
The NHS has three major characteristics. Firstly, it is an essential component of the political discourse in UK, and over the years, it has remained a measure of political success. Political parties often use their record in terms of investment, waiting lists, waste, inefficiency, *inter alia* on the NHS to campaign for votes at elections. No political

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15 Although the Coalition government is proposing significant changes to the structure, they have not yet been implemented and so are not considered in this study.

(Source: Harker, 2011).
administration would want to see the demise of the NHS. It is widely noted that it cannot be allowed to fail because it is central to the politics and the social welfare system. In summary, the NHS can be seen as presenting little or no risk to businesses that would deal with it.

Secondly, it has the second biggest budget of all central government departments. As the NHS has turned to commercialism and managerialism (Pollock, 2005), the budget can be described as turnover, income to be used to buy various aspect of health care as if it were a commodity. The turnover stands at some £111bn and, as generally acknowledged, places a significant fiscal demand on the tax payer. There are suggestions in the media that the average cost per tax payer in 2007 was £1,915\(^{16}\). The combination of its huge turnover and the low business risk means that the NHS offers enormous opportunities for businesses looking for security of income and almost certain profit.

Thirdly, it is the biggest employer in the UK, providing jobs for a huge number of people. Therefore, if any policy negatively affects the capacity of the NHS to recruit and or retain its workforce it would negatively affect the economic circumstances of this workforce and consequently the whole economy. In many respects a major part of the NHS is the PCT system which is now briefly described.

The 152 PCTs offer readily accessible basic healthcare services in multidisciplinary health centres based in the community. In addition, they have a major role in commissioning secondary care. They are responsible for around 80\% of the total NHS turnover. The DoH’s recurrent turnover allocation to these PCTs for the 2011-12 financial period amounts to some £89bn (DoH, 2011). In summary therefore, the PCTs are central to the NHS in England for at least four reasons. First, the PCTs have a major role in health care delivery. Second, they employ a significant number of the working population. Third, they place significant fiscal demands on the taxpayer. Fourth, they offer some enormous business opportunities for the business community.

The NHS has across time, and like other public and social sectors in the UK, been subjected to different PPP approaches to deliver various aspects of the health care. Two such approaches are PFI and LIFT. The next subsection examines the use of PFIs and why LIFT was initiated.

- **The NHS PFI and the need for LIFT**

PFI is one of the guises of PPP which successive UK governments have used to deliver public projects. It has been widely noted in the literature as a very dominant approach in the UK especially in terms of number and capital value of projects. The UK health sector has been reliant on PFI for its hospital development which suggests an interest on the part of government to make it appear successful at any cost. If it fails the ‘hospital modernisation’ agenda will be in danger it can be argued (Broadbent and Laughlin, 2005). As Shaoul *et al.* (2008b:101) have observed:

‘PFI is the cornerstone of the UK government’s healthcare modernization agenda whereby Britain’s aging hospitals are to be renewed’.

Under a typical hospital PFI in UK several private sector partners form a consortium, which establishes an SPV, to deliver capital assets and some services to an NHS hospital trust on a long-term contract, generally lasting 30 years or more (Barlow and Koberle-Gaiser, 2008). Thus, a hospital PFI arrangement typically involves finance, design, construction, and facilities management such as such as cleaning and catering, for which fees have to be paid over the duration of the contract.

The PFI scheme has proved to be problematic for at least the following two reasons. First, it proved to be unsuitable for small PCT building projects because the high fixed bidding and transaction cost of PFI makes small projects relatively expensive (Coulson, 2008; Treasury, 2003). Second, it had proved expensive to make amendments and changes to agreed designs of PFI projects. A 2008 National Audit Office (NAO) report finds that £180m a year is paid out by the taxpayer for contractual amendments (UNISON, 2009a and 2009b).
The UK government subsequently made a decision in the early 2000s to officially recognise PFI in the UK as suitable for projects with capital value of more than £20m, in other words, large schemes (Treasury, 2003). Accordingly, in the NHS, PFI has concentrated on the big NHS hospital buildings (Treasury, 2010b). This, it is noted, has meant that the small and community based PCTs missed out as they have not been able to access investment under the PFI model (Shaoul et al., 2011). Without any other funding stream, and despite the significance of the PCTs in the health care delivery, there was therefore no mechanism for investing in dilapidated PCT premises. As Community Health Partnership states:

‘Primary care handles nine out of ten NHS patient contacts, yet primary care premises had suffered from historic under-investment. Many surgeries, particularly in city centres, were unsuited to delivering modern healthcare services, contributing to a shortage of doctors in those areas that had the most serious health problems’ (Last accessed on the 19th of July, 2011 at www.communityhealthpartnerships.co.uk).

So if the PFI model was not suitable for the small PCTs buildings which were in need of capital investment, and government was not forthcoming with capital investment from general taxation, then a new format was needed to attract investment from the private sector. As a result, the LIFT policy was launched by the last New Labour Government in the early 2000s. The LIFT policy was to be implemented in the following ways. A number of LIFT schemes would be set up across England. For each LIFT scheme, a successful private sector bidder would set up an equity capital shareholding local joint venture company, referred to as the LIFT Company or simply, the LIFTCo, to be owned by this private sector bidder and public sector. As the government plan that launched the policy has emphasised:

‘The NHS will enter into a new public private partnership within a new equity stake company – the NHS Local Improvement Finance Trust (NHS Lift)’ (NHS Plan, 2000:45).

The public sector shareholding is further divided into a local public sector entity usually a local PCT(s) and/or LA(s), and a national public sector body, a DoH-owned- company, CHP (see Figure 1.2 above).

The aims of LIFT were wide ranging as they were entangled with broader goals about the healthcare buildings and well-being of people and wider community engagement including
regeneration of the communities. Firstly, LIFT was intended to encourage the private sector participation in improvement of Primary care buildings in England (NAO, 2005). The LIFTCo would design, finance, build or refurbish and operate PCT buildings under a contract that could last up to between 25 and 30 years (NAO, 2005; PAC, 2006; UNISON, 2003).

Secondly, as the LIFTCo was to be given an exclusive right, it was expected to plan and deliver the entire programme of building work within a LA region as a sole procurer and service provider. This, *inter alia*, was expected to allow the LIFTCo to deliver a succession of small, discrete but community-based PCT building projects and also allows the initial set up, bidding and transaction costs to be spread over time and across several but discrete projects (NAO, 2005; Treasury, 2003). However, in order to deliver the successive and discrete PCT building projects, the LIFTCo would require discrete debt funding. This, would in turn, require the setting up of SPVs known as fundcos (Aldred, 2006; NAO, 2005, Mahmood, 2004), thus adding a further layer of organisational complexity.

‘A Fundco is a shell company within the LIFT financing structure holding the debt funding for each individual tranche of LIFT projects’ (NAO, 2005:33).

There was to be a significant investment of up to £1bn, delivering 500 one-stop primary care centres in the first four years following the launch (NHS Plan, 2000).

Thirdly, it was intended to prioritise capital investments in LIFT in those parts in England where primary care buildings were in most need of expansion (NHS Plan, 2000). The buildings to be delivered under the LIFT scheme were expected to be designed to accommodate the regeneration needs of the local community (Beck *et al.*, 2010).

Further, despite that the private sector partner would contribute the majority of the equity capital shareholding, the LIFTCo was described as a public private joint venture, therefore suggesting a joint ownership and control by both private and public sector shareholders. It was expected by government that as a shareholding joint venture, the LIFT scheme would enhance partnership working between both the public and the private sectors as both would constitute the board of directors and the SPB to provide oversight, scrutiny, monitoring and coordination (NAO, 2005; Treasury, 2010a; Rassell, 2008). There is in addition, an explicit
policy objective that the LIFT scheme should cross departmental boundaries, *via* Strategic Partnership Agreement (SPA). This was expected to encourage partnership working between public sector departments, say between social services, LAs and PCTs (Beck *et al*., 2010; NHS Plan, 2000; Rassell, 2008; Treasury, 2003). The underlying rationale was that through the joint venture partnership arrangement both the public and private partner organisations would collaborate to generate mutual benefits (NAO, 2005; Rassell, 2008; Treasury, 2003). The private sector as a strategic partner of the PCTs expands the involvement of the private sector beyond building and maintenance of PCT buildings to include being part of the PCTs’ long term plan as per the SPA (Beck *et al*., 2010).

Unlike most of the PFIs where the infrastructure reverts to the public sector at the end of the contract, with the LIFT scheme, it is not a straightforward transfer of the building. Once the contract has expired, the building would be available for sale to anyone interested, including the PCTs who have the first option to buy. The debt financier is entitled to what is referred to a bullet payment: a tranche payment at the end of the lease (Mahmood, 2004; NAO, 2005). This is usually, a percentage of the market value of the LIFT asset. The remaining amount is shared between the shareholding partners.

The academic investigation on the LIFT scheme has not been as extensive as in relation to the PFI scheme, although it raises numerous operational, accountability and governance concerns.

- Firstly, LIFT involves a complex networks of contracting and subcontracting and in addition works in a top-to-bottom mode, setting its planning through high level structures which are usually closed to the public and patients, it puts an extra barrier between managers and service users (Aldred, 2006).

- Secondly, as the LIFT scheme has to be attractive to the private sector namely to be profitable, it threatens putting private profit before health care needs, particularly in areas where investment is critically needed but it is harder to charge high rents for pharmacies, cafés and other third party income streams (Aldred, 2006). As in PFI, LIFT has proved to be costly (Aldred, 2006, Beck *et al*., 2010, Mahmood, 2004; PAC, 2006). Financial returns that result from the LIFT scheme largely accrue to
the private investor rather than the taxpayer (Beck et al., 2010; PAC, 2006; UNISON, 2003).

- Thirdly, though LIFT is flexible for private investors, because it allows them to treat primary health care buildings as a property portfolio, this creates an inflexibility for the PCTs, which is tied up into long-term contracts in order to guarantee the private sector’s cashflow (Aldred, 2006). Also, if the PCTs want to alter buildings, the LIFT company has a monopoly over such work (Aldred, 2006; NAO, 2005), which has no minimum cost (Beck et al. 2010), bearing in mind that maintenance cost has been an issue in PPPs in general (Edwards et al. 2004; Hellowell and Pollock, 2010).

- Fourthly, a DoH commissioned report cast doubt on the partnership working (Rassell, 2008) as it finds that the private sector on all accounts, is in charge of the LIFT scheme. Aldred (2008) describes the power relationships between the financiers, private sector directors and the public sector partners in the LIFT scheme as unequal, the public sector being the weakest.

The LIFT scheme earns its income from leasing space to PCTs including GPs and other agencies and health professionals that the PCTs are involved with. That is, the LIFT scheme’s association with the PCTs is restricted to the delivery of premises for PCTs and related agencies. It is also worth noting that the LIFT policy fits into an environment that already has private sector involvement and profit making motives. GPs are profit making partnerships, organised under the PCTs system (Pollock, 2005). Therefore, as the present study will show, the LIFT scheme takes the private sector and finance capital involvement further because financial considerations have entered another facet of health care, which is the availability of PCT premises. This study thus takes the view that neo-liberalism in terms of its requirements and justifications seeks one fundamental goal, which is to deliver financial value, that is, to privilege finance capital, thus financialising the public sector: increasing the influence of financial value and finance capital over public policy (Blackburn, 2006).

As there are calls for accounting studies that cross disciplines and are socio-technical (Broadbent, 2012; Broadbent and Guthrie, 2008; Hodge et al., 2010; Humphrey and
Miller, 2012), this study finds financialisation as one particular area where there is scope for empirical examination of the tensions in control and responsibility that are created in LIFT structures. Accordingly, and partly in response to these calls, financialisation is presented as part of the context for studying financial accountability and governance in LIFT. It represents the norm that provides a coating to the supposed objective techniques promised by the mode of financial accountability and governance under NPM. This is crucial because it reflects the significance of the moral dimension: the implication of the process of neo-liberalism being such that it becomes very difficult to understand neo-liberalism and PPP without this dimension.

The next section explains the financialisation dimension of neo-liberalism.

2.3 Financialisation and PPP

This section does three things. First, it explains what counts as financialisation. Second, it explains what financialisation means for financial accountability and governance. Third, it explains how financialisation is connected to LIFT. The overall argument is that the world of PPPs is one that cannot be adequately explained by reference to the technical alone. This is because it is quintessentially a social phenomenon, a world that involves symbolic representations, meanings, interpretations and power rather than a world of self-evident objective facts. It is therefore important to reveal financialisation as part of the context for studying any aspect of PPP.

Although, the relevance of financialisation in PPP appears compelling, it may be obscured by the historical lines and trajectory within which financialisation research has existed. Apart from one notable exception, Asenova and Beck (2010) which examine PPP accountability in the context of financialisation, such research has historically been predominant in analysing larger and listed companies (eg. Froud et al., 2000a, 2002a). Mindful of this dearth of evidence of PPP research that has focused on financialisation, this section draws largely on the financialisation literature outside of PPPs.

Also worth noting is that financialisation at the academic level has been given different emphasis and there is hardly a common definition of financialisation (Epstein, 2005). However, Haslam (2010) in commenting on Andersson et al. (2010) suggests that the financialisation literature consists of (1) a description of the financialisation processes and
(2) the critical financialisation thesis. There are however, some overlapping emphases between these two sets of the literature (Blackburn, 2006). Therefore, this section does not give a universal definition of financialisation. Instead, it draws on the varied literature to present what can be counted as financialisation and implications for financial accountability and governance (see Table 2.5).

- What counts as financialisation?

Whitfield (2010:66) relates financialisation to the wider neo-liberal agenda and conceptualises it as:

‘The drive towards private investment in public infrastructure that requires financial markets to provide new loans, additional securitisation, new Special Purpose Vehicles (SPVs) and new opportunities for profit’.

Boyer (2000) contrasts financialisation as an alternative to Fordism. Fordism in the view of Boyer is a growth regime that is dependent on the productionist path namely, the manufacturing path. For Boyer, financialisation creates high profit expectations which then drive financial asset prices in a cyclical self-validation. Krippner (2005) on the financialisation of the American economy re-echoes Boyer’s view that financialisation is the shift in profit making from productionist path to financial path. By this, she conceptualises financialisation as:

‘A pattern of accumulation in which profits accrue primarily through financial channels and in financial organisation rather than through trade and commodity production’ (Krippner, 2005:174).

For Krippner (2005) financialisation has become an economy-wide principle and the reasons are that the economy is dominated by financial news in the business media, the Wall Street’s influence over corporate behaviour and the acceptance of financial literacy as a core competence in our social life.
Table 2.5: Financialisation and, accountability and governance implications

<table>
<thead>
<tr>
<th>What counts as financialisation</th>
<th>Accountability and governance themes</th>
<th>Relevant literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excessive debt financing;</td>
<td>Rentier income accounting;</td>
<td>Blackburn 2006;</td>
</tr>
<tr>
<td>Opportunity for profit from</td>
<td>Finance-based reporting.</td>
<td>Epstein and Power,</td>
</tr>
<tr>
<td>financial assets, Profit</td>
<td></td>
<td>Finlayson, 2009;</td>
</tr>
<tr>
<td>through financial channels;</td>
<td></td>
<td>Froud, et al., 2000a;</td>
</tr>
<tr>
<td>Finance-based accumulation</td>
<td></td>
<td>Goldstein 2009;</td>
</tr>
<tr>
<td>Rise to power of a class of</td>
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<td>Nölke and Perry 2007;</td>
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<td>Primacy of shareholder value</td>
<td>Culture of corporate governance;</td>
<td>Andersson, et al.,</td>
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<td></td>
<td>Fiduciary responsibility</td>
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<td>Value-based matrix;</td>
<td>Froud, et al., 2000a;</td>
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<td>Excessive deployment of narratives.</td>
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<td>Securitisation;</td>
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<td>Deregulation and empowered</td>
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Also while Finlayson (2009) is not explicit about the financialisation being an economy-wide principle, he is of the view that financialisation has become prevalent in the UK. Particularly that it is included in the school curriculum, it is extensively promoted by the media and that households have embraced the financialisation idea by buying property now, financed by debt and sold in the future for profit.

Froud et al. (2000b) are however, very cautious in their view of financialisation as a grand theorising. For them, financialisation is essentially the obligation of firms, governments and individuals to behave in ways that deliver profit and value to shareholders. They emphasised that this is a requirement of the capital market, which by extension means that financialisation subjects individuals, firms and government to the expectations of the capital market.

Further, Goldstein (2009:454) views financialisation as:

'A new phase of capitalist accumulation associated with the concentration and centralisation of capital and the rise to power of a class of finance capitalists provide a general framework that has proven useful for analysing the resurgence of influence that
finance capitalists and financial markets have over economic outcomes and policies in the neoliberal era'.

This view associates financialisation with the increasing influence of financiers over economic policy and outcomes. Blackburn (2006) agrees with Goldstein (2009) when he conceptualises financialisation as the gaining of overwhelming influence over economic and social behaviour by finance, the financial elites and financial institutions. As a result of the dominance of finance and financial markets, the concept of ownership is being displaced by the episode of finance suppliers. This changing trend is arguably, leading to complex stakeholding and organisational relationships with new goals and horizons – short term profitability, rise to power of finance capitalist, changes in corporate governance, financed-led accumulation (in the form of interest payment) (Goldstein, 2009; Palley, 2007).

In Goldstein (2009), it is suggested that the literature on financialisation covers both macro and microeconomic level analysis. At the macro level, studies have explored the rise to power of financial capitalist, the impact of financialisation on real capital accumulation, the generation of surplus value and the consequent inequality and instability in national wealth distribution. At the micro level, studies have explored issues such as corporate governance, firm behaviour in terms of shareholder value. Other areas of the literature include studies on the impact of financial institutions, financial innovation, deregulation and empowered financial institutions.

Financialisation has been conceptualized in terms of a business model as well. As Andersson et al. (2010:634) have observed, a financialized business model:

‘incorporates three organising elements: (a) narratives about productive performance and how these act as a substitute for commercially driven financial numbers, (b) capital market conditions and (c) the variable identities and motivations of equity investors where the scope for arbitrage and financial gain from exit matters’.

In addition, different strands of critical perspectives have been deployed in studying various aspects of financialisation. It is demonstrated that the emphasis on financial results can lead to (1) corporate restructuring including labour layoffs and (2) deployment of value-based matrices and narratives. Froud et al. (2000a), by associating restructuring with shareholder value, identify labour as the vulnerable casualty because, given the product
market constraints, labour layoffs are the practical option to reduce cost in order to make profit and hence, achieve value for shareholders. Of particular relevance to LIFT is that the financiers in the NHS joint ventures will expect the structure of the joint venture to be presented in a way that will not inhibit their ability to secure their expected returns.

The pressure to deliver shareholder value in the traditional Fordist productionist mode (manufacturing, assembling) has led to the situation where production is driven by finance. Speaking of the car industry, Froud et al. (2002a:40-41) observe:

‘the pressure for improved financial results is so far associated with an intensification of dependence on car finance which has produced a curious corporate hybrid in Europe and the USA which is part assembler and part finance house with 50–75% of its capital tied up in car finance. The hybrid firms like BMW or Ford face a different set of opportunities and threats than the few remaining productionist firms, like Toyota and Honda, which still concentrate their effort on car design and assembly. One of the new research agendas is to understand more about the behaviour and trajectory of the financialised assemblers’.

In some cases, the corporate world has relied on value-based products as trajectories for achieving value for shareholders. As Froud et al. (2000b) suggests, value-based products, for example economic value added (EVA), market value added (MVA), have been an integral part of the financialisation process in a sense that they emphasise profit and shareholder value. They conceptualise shareholder value as a traditional requirement of the stock market and by that link the stock market as the sphere of financialisation. Froud, et al. (2000b) by drawing on the orthodox theory of the firm argue that in the long run abnormal profit will be competed away so that firms earn only normal profit. For this reason, they wondered how the metric-based products such as the EVA and the MVA could earn firms abnormal profit. For them, abnormal profit that reflects positively on shareholder value is generally possible in situations of product market advantages. In particular, they identify intellectual property; brand and small capital employed (less capital intensive) as key characters that can explain profit and shareholder value. The study implicitly suggests some conditions that may explain financial performance which could be relevant to the LIFT scheme.

First, that by emphasising MVA and EVA, improved financial results may be achieved. Second, that although these alone though may be necessary conditions, they may not be sufficient to achieve improved financial results. Third, that favourable market advantages
may also be required as sufficient conditions to achieve improved MVA and EVA in order to achieve the improved financial results. Therefore, in relation to the LIFT scheme, for the financiers and the private sector participants to achieve their expected returns, they would have to do so by mobilising market advantages such as monopoly positions.

Financialisation and its quest for improved financial results have led to the deployment of narratives which could lead to unauthentic financial reality and errors. A classic case, which is argued elsewhere in the literature as an exceptional case, is the ENRON debacle (Froud et al., 2004). Froud et al. (2004, 2006) and Erturk et al. (2008) demonstrate how financialisation, in terms of shareholder value, lead to excessive deployment of narratives which often do not necessarily fit with the financial reality. What is learnt from this finding is that in the context of financialisation, narratives have become an essential mechanism, which means that in order to understand the financial reality of the LIFT scheme, narratives should not be disregarded.

There is a conventional knowledge that capital markets are intermediaries of surplus and deficit positions. In other words, they take money from those with surplus money and channelled them to those who need the money. However, it has been argued that capital markets are no longer intermediaries of the surplus and deficit position holders, rather they influence behaviour of individuals, firms and government (eg Froud et al., 2002b). The behaviour is to set a shareholder value objective and allow it to drive all decisions, making shareholder value a cause and effect concept. So Lazonick (2008) Lazonick and O’Sullivan (2000) argue that capital market pressure on firms to deliver shareholder value has led to the emphasis on downsizing and distributing.

- Implications for financial accountability and governance

Financialisation has some implications for financial accountability and governance as it influences directors’ behaviour in terms of their oversight, monitoring and reporting responsibilities. As Andersson et al. (2010:262) observe:

‘Financialisation can be broadly associated with how managers’ behaviour and culture, corporate governance, stakeholder interests, firm performance, national economic competitiveness and distribution of income and wealth are modified by the demands of finance capital’.
Also, what financialisation means for financial accountability and governance is explained by Nölke and Perry (2007) through two subsidiary notions of financialisation: profit and control financialisation. A notion of profit financialisation exists where returns to finance capital and shareholders are derived from rentier incomes, such as interest income, tax shield, bullet payments and group tax reliefs (See also, Epstein and Power, 2002; Erturk et al., 2008). And a notion of control financialisation is that shareholder value is no longer merely a metric, but has become the central principle of a corporate governance ideology in which the interests of shareholders and finance capital dominate the running of firms. Here, corporate governance style management which internalises the interest of shareholders dominates the governance arrangements in the firms.

However, Reberioux (2007) raises caution against the primacy of shareholder value in that it may favour deceptive managerial practices such as those widely reported about ENRON and ultimately reduce managerial accountability. It is therefore very important that financialisation and its associated accountability practices are viewed with some scepticism.

On the basis of any possible downside risk of financialisation such as deceptive managerial practices, reduced managerial accountability, Boyer favours regulation of financialisation, as he puts it:

‘the imposition of financial norms, such as shareholder value, requires a new and coherent architecture for the mode of governance of firms, the form of competition, the wage labour nexus and the objectives of monetary policy, public budget and tax system’ (Boyer, 2000:111).

The concepts of financialisation have relevance for PPPs. Of particular relevance are the overwhelming influences of financiers, banks over the LIFT policy. This thesis will argue that these influences involve the complex stakeholding, rise to power of finance capitalists, finance-led accumulation and reporting, and changes in corporate governance, particularly the increasing relevance of allocative and authoritative resources. However, as Gleadle and Cornelius (2008:1219) put it: ‘financialised solutions do not constitute a panacea for struggling organisation’. It is therefore very important to be mindful of possible complications that financialisation may bring to the LIFT scheme.
The following examine some details of how the LIFT scheme may or may not involve financialisation.

- The LIFT business model and financialisation

Though a business model, in a more general sense and in the product market, is associated with cost recovery (Froud et al., 2004), in the case of the LIFT scheme, it means more than cost recovery. The NHS LIFT scheme is presented by government as a scheme that depends largely on financiers and private sector managers who mobilise the LIFT structure, and in a sense, the LIFT business model, to finance and control the scheme and in turn, accrue significant returns on their investment (Mahmood, 2004; Rassell, 2008).

The LIFT business model is fashioned to have a holding company, the LIFTco which then sets up subsidiaries, known as fundcos, to hold debts that finance the LIFT building projects. The underlying assumption in this model is that the PCTs need to invest in their capital assets and are dependent on the finance suppliers from the capital markets, specifically, the banks. However, in order to continue to attract these financiers, conditions should be favourable. These conditions include a favourable business model grounded in the financing structure described above. The structures are arranged also to motivate the finance suppliers to participate in the scheme. Their participation is facilitated by their possession of some form of resource, for example, banks’ power over the flow of investments, to provide them with allocative resources. Also, participation of shareholders of the LIFTCo and its relevant subsidiaries namely, their involvement in the oversight, scrutiny and reporting activities through their representative that is the board of directors are facilitated by their possession of authoritative resources, namely their equity capital.

In this financialised business model, the realisation of gains, in other words, the maturity of the gains or financial returns requires a combination of technical creativity and sometimes a patient shareholder for at least two reasons. First, LIFT needs technical and expert managers to manage the process. Second, LIFT needs a patient shareholder who will wait till the loans are fully retired. It can be argued that a ‘patient’ shareholder is the one who has not locked up his or her capital and thus, has nothing or little to lose. The LIFT

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17 Equity capital gives capabilities to shareholders to constitute the board of directors and command control over it.
shareholders invest a very small amount of equity and are not in a hurry to recoup, instead waiting for a financial gain which is the most likely outcome. However, the impatient shareholder or financier can be the one who refines for financial gains.

Also, in this financialised model, the equity investor commits a minimum capital to secure control. He then secures a loan from the financiers to finance the scheme and can wait until the expiry of loan repayment in order to realise a possible gain from the residual value of the underlying building project. The LIFT scheme thus appears similar to a speculative hedging by which a price is paid to lock in the underlying assets and upon maturity, activates the right to a gain or loss. The retirement of the loan, which is by bullet payment, is similar to the maturity date of the hedging instrument. On this date, in between 25 and 30 years’ time, the equity and debt investors close their positions and thus take all the resulting gains. Before the maturity date, losses and profits are adjusted on the equity. Through this, each LIFT scheme can be seen to be a financial instrument and raises the question as to whether or not each should be accounted for by the ultimate holding company using the IAS 39 Financial Instruments: Recognition and measurement and IAS 32 Financial Instruments: Presentation.

As a financial instrument, the LIFT scheme has become an investment opportunity for finance suppliers. The opportunity that this sort of financial instrument presents is guaranteed by the exclusivity agreement that accompanies the LIFT scheme. For this reason, the holders of the right of control over the LIFT scheme have unlimited opportunities (gains), which is further enhanced by the absence of price competition. However, they are exposed to limited risks to the extent of their nominal equity stakes.

As part of presenting LIFT as a case of financialisation, the following examines possible financial value creation aspects.

- The LIFT scheme as mechanism for financial value creation

Also, it is possible to present the LIFT structure as a financial value creation mechanism for the finance supplier (both equity and debt providers) where the strategy is to continuously draw on debt capital to finance new tranches of building projects. The LIFT scheme is then able to increase its average earnings through rentier income such as a tax
shield, which is the tax relief generated by the interest on the debt capital (Mahmood, 2004).

- **The financialised LIFT and its organising elements**

The three organising elements of a financialised business model as conceptualised by Andersson *et al.* (2010) are relevant to the LIFT scheme. The narratives including metaphors, rhetorics and official claims are at both macro (political economy) and micro (firm) levels. They are about the feasibility and attractiveness of LIFT and intend to motivate finance suppliers to join the scheme with their funds and also to garner public support. The finance suppliers are active participants in the capital market. The market conditions provide funding and follow on funding. In order to keep the scheme attractive, arbitrage opportunity, which is the possibility for the realisation of financial gain, must be present and realizable (cf. Reilly and Brown, 2002).

The equity investor can, as indicated earlier, wait to realise the financial gain after the retirement of the debt finance. The LIFT scheme could potentially inform a theoretical position, one that is grounded in the financialisation perspective and thus emphasises the dominance of financial instruments, arbitrage opportunity and the arbitrage theory (cf. Reilly and Brown, 2002).

Specifically, the LIFT scheme mimics the futures instruments (cf. Reilly and Brown, 2002). The nominal equity capital expected from shareholders could represent a collateral account which in the sense of futures, is referred to as ‘margins account’ (Reilly and Brown, 2002). The margins account is held as collateral against movements in the value of the underlying assets. In respect of LIFT, profit and losses would be adjusted on the nominal equity of the ultimate holding company year on year as would be reflected on the shareholders’ fund.

The futures, like any other financial instruments, could be for hedging (offsetting) and speculative purposes (Reilly and Brown, 2002). As related to the LIFT scheme, if it is used for speculative purpose, the equity provider speculates on future outcome, particularly the future value of the residual value. Finance theory assumes that markets are perfect and as a result, there is no opportunity for arbitrage. However, the LIFT market is not perfect
especially because free access to information, which is fundamental in the perfect market theorization, may be lacking, because as usually the case with PPPs in general, commercial confidentiality is paramount in the LIFT setting. There would, as a consequence, be opportunity for arbitrage profiting by the equity provider who would have a significant residual right. Financial gains are accrued to the finance suppliers and this could be contradictory to the core aspirations of the NHS, which is to deliver quality universal health care. This leads to the problematisation of the financialised LIFT as involving conflicts and contradictions. Accordingly the next section examines some key stakeholders and the conflicts that may emerge from their conflicting needs.

2.4 LIFT Stakeholders, Related Conflicts and Contradictions

Generally, stakeholders are conceptualised as those who affect and are affected by (1) the activities of an enterprise and (2) the policy outcomes of a government. The stakeholder concept has become a frequently prefaced term in most accounting texts (Ferguson, et al., 2005) and is mobilised by regulators and politicians in public policy debates (Froud, et al., 1996).

At the macro level of general public policy debates, the stakeholder concept has often been associated with the expectation of ‘general benefits for all’ (Froud et al., 1996). For Froud et al. (1996), this presumes that stakeholding is unproblematic. It is thus taken to mean that the economic effort of the different stakeholders that goes into the production of commodities within a corporate sector is cooperative and that all benefit. Furthermore, these benefits can be increased as a result of management’s power to increase efficiency and ability to harness the creative and cooperative efforts of the stakeholders to yield competitive advantage. In respect of the LIFT scheme, it has been rationalized by government that through the joint venture partnership arrangement both the public and private stakeholders would collaborate to generate mutual benefits (NAO, 2005; Rassell, 2008; Treasury, 2003).

This conception of stakeholding is branded by some academics as a political fantasy as it does not confront the structural reality of redistributive conflict between stakeholders at the micro level where gains of one stakeholder are at the expense of another stakeholder. Froud et al. (1996) expose the rhetoric around the essence of stakeholder at the macro level
discourse and contrast it with the micro level conflicts that it generates. They make a very important point in redefining the stakeholder from financial accounting perspective ‘as one who makes some claim on the distribution of sales revenue’ (Froud et al., 1996:121). They define stakeholder in the commercial context where stakeholders would generally include: the customers, suppliers, workforce, the Government as the tax raising authority, the financial institutions and shareholders as providers of loan and equity capital, and the business itself through its demands for capital maintenance and enhancement. These stakeholders present differing but often conflicting demands on the commercial sector and therefore, stakeholder conflicts become inevitable as found in respect of the LIFT scheme (Aldred, 2006; 2008; Beck et al., 2010; Mahmood, 2004).

The number of stakeholders depends on the form of ownership. Froud et al. (1996) observe that privatisation adds an extra claim on the enterprise’s revenue through a new class of shareholder stakeholder. Of particular relevance, the LIFT scheme can be characterised as contributing to the growing extension of the PCTs’ stakeholders by adding another set of private financiers and the private sector sponsors with extra claims on the local PCTs’ revenue.

‘These vehicles (referring to the LIFT schemes) raise private finance in order to develop a succession of projects over 20-year life of the partnering agreement. They (referring to LIFTs) charge rents to primary care providers to service this debt - and provide profits for investors and contractors. This is repaid through NHS subsidy to GPs, Primary Care Trusts and/or other health providers. Investment through LIFT, therefore, is ultimately paid for by the NHS’ (PAC, 2006:Ev24).

‘Additional guidance should be developed to help LIFTCo Boards manage potential conflicts of interest when senior individuals such as Chief Executives or Finance Directors from a Primary Care Trust are also appointed as a public sector director to the LIFTCo Board. Where an individual has such a dual role as Board member of the customer (Primary Care Trust) and supplier (LIFTCo) it is not prudent to rely solely on individual integrity to manage potential conflicts of interest’ (NAO, 2005:7).

The LIFT scheme risks creating conflicts of interests through the creation of new organisations which sit uneasily between the public and private sectors. The DoH is both an investor and also performs some regulatory roles and PCTs both purchase services from LIFTCo and invest in it (PAC, 2006). As a company limited by shares, the LIFTCo’s shareholders participate in ‘profit sharing’.
Whilst the financiers aim to accumulate financial gains through financial channels, that is, through interest charges, the private sector equity providers emphasise the need to make significant margin in order to pay interest and also make profit. However, the NHS aims to buy tenancy as cheaply as possible in order to deliver what patients expect as good quality health services. Also, the employees expect reasonable salary and other benefits. All these constitute cost and thus lay claim on the local PCTs’ revenue, which is supplied by the taxpayer. In the pursuit of these goals, there is obvious conflict as one stakeholder’s gains are at the expense of another stakeholder.

Fiduciary duty of the public sector director on the LIFT board had been a concern to the UK’s NAO, an agency charged with auditing and evaluating public spending and finances inter alia. It summarises this concern in the following way:

‘The public sector director, in the role as a LIFTCo Board Member, has a fiduciary duty to act in the interests of the LIFTCo and not for the Primary Care Trust’ (NAO, 2005:32).

As acknowledged by UK’s PAC in their report on LIFT (PAC, 2006:Ev 26), the NAO (2005) provides no evaluation of how these conflicts affect accountability, transparency and the avoidance of conflict in the governance procedures in LIFT. The NAO only suggests that when in a difficult position in respect of their prime duty to the LIFTCo, the public sector directors should refer such matters back to their public sector agencies. So for example, PCT directors on the LIFT board would refer back to their relevant PCT for a decision.

The LIFT case is thus represented as what Tinker (2001:79) describes as a ‘site of social conflict’ where protagonists, particularly, the financiers, private sector participants and the PCTs engage in major distributional struggle. Tinker (2001) identifies accounting and financial reporting as being capable of serving as a progressive weapon in this social conflict. It can also serve as an authoritative resource in the way that Giddens has postulated in his various writings (eg. Giddens, 1979; 1984 and 1993). Amernic and Craig (2004) highlight the accounting complicity in this conflict by commenting that the financial report distributes wealth in favour of the shareholders and by extension, the finance capital. Amernic and Craig (2004:352) comment:
‘The financial report assumes the primacy of shareholder which imposes legal and fiduciary obligations on directors and corporate officers to promote shareholder value. There is no equal fiduciary duty to promote the wellbeing of employees and community’.

In such a situation, the type of reporting and governance technologies will usually emphasise financial outcomes and the shareholder value and thus raises questions about whether it will deliver public accountability (Shaoul, et al., 2008a) including affordability and VFM (Beck et al., 2010).

Also, given that accounting is not technically determined and hence, not objective but socially constructed (Hines, 1988, Tinker, 2001), this means that shareholder value could only result from a struggle between finance capital and the local PCTs. The promotion of shareholder value could contradict the goals of the local PCTs. These contradictions in the LIFT scheme are explored in detail in later chapter where Giddens’ (1984) structural contradictions are adopted as an explanatory framework.

2.5 Conclusion and Summary

This chapter described neo-liberalism as an ideology pushed by some supranational financial institutions and some global elites, a mode of governance that encourages expert governance and assumed technical objectivity.

In addition, it described as part of neo-liberalism, initiatives such as privatisation of state-owned enterprise and PPPs that have inundated public sectors across the globe. It highlighted that PPP as a policy has been transient and ambiguous as the meaning and aim have been changed over time and have been wide ranging. It is now extended to LIFT, which is the focus of the empirical analysis of this thesis.

Also, this chapter examined financialisation, its implications for financial accountability and governance, LIFT stakeholders and related conflicts. This chapter is the context in which this thesis is located. Therefore insights drawn from this chapter serve as background to the empirical analysis of LIFT.
Chapter 3: Philosophical, Theoretical Motivations and Methods

3.1 Introduction

3.1.1 Aim and Objective

Philosophical assumptions about the nature of the social world, about the nature of knowledge, about the human nature and society have been widely acknowledged as fundamental in the generation of knowledge within the broader scholarly community. They have equally been acknowledged to have created distinctive communities of researchers with accompanying rivalry. This chapter acknowledges the differences among the communities of researchers. It then considers the purpose of the thesis, namely seeking, *inter alia*, an in-depth understanding of financial accountability and governance practices, and chooses a critical philosophical position. Accordingly, the thesis takes a social critique view of financial accountability and governance practices, going beyond the technical details to examine the socio-techno-political and historical contexts and contradictions that the technical details involve. Therefore, the study leans towards the community of critical researchers.

Also, and consistent with the critical position, the thesis adopts a case-based qualitative enquiry approach that draws on publicly available official documents and semi-structured interviews and questionnaire. The overall aim is not to adopt a pre-determined frame of reference but rather, to use a case study approach that draws on multiple sources of evidence in order to deal with three issues. First, to provide rich description of the financial accountability and governance practices in the NHS LIFT scheme. Second, to analyse the *hows* and *whys* of these practices and third, to ultimately make sense of them in their historical and socio-political context.

3.1.2 Outline of the Chapter

The remainder of the chapter is structured as follows: Section 3.2 presents general overviews of the main philosophical perspectives that researchers in the field of social sciences have deployed in their attempt to contribute to knowledge. It is extended by an examination of possible philosophical perspectives that can be deployed in studying financial accountability and governance. It also outlines some concerns about the
philosophical divide and the usefulness of it, shows how each perspective embodies limitations and paradoxes, and explores some of the ways in which each perspective may fail to satisfy its own aspiration. Section 3.3 discusses the choice of critical philosophy for studying LIFT’s financial accountability and governance. Chapter 3.4 discusses the research methodology and approach. The chapter then discusses in section 3.5, the process of data collection explaining the methods as well as the techniques for data collection. Section 3.6 discusses the data analysis and section 3.7 concludes the chapter.

3.2 Philosophical Perspectives in Academic Research

3.2.1 Introduction
This section presents a general overview of the main philosophical perspectives that researchers in the field of social science have deployed in conducting academic research. In addition, it examines possible philosophical perspectives that can be used in studying financial accountability and governance practices.

In general, the philosophical perspectives of academic research are about the world views that such research reflects. It must be noted that the philosophical perspectives are widely associated with the term ‘paradigms’, because Burrell and Morgan (1979) and Kuhn (1996), who have been widely cited, have used the term paradigms. However, this term may be confounding (Laughlin, 2010; Morgan, 1980; Nørreklit et al, 2010) and therefore, this study will use philosophical perspective.

3.2.2 General Overview
The philosophical perspectives present different assumptions about the social world. Given that there can be many varieties of perspectives it is impractical and perhaps impossible to examine every possible perspective, therefore this study considers the widely cited philosophical perspectives presented in Burrell and Morgan’s (1979) framework. In addition, it briefly describes the widely cited critical realist perspective (Archer, 1982, 2003, Modell, 2009).
Burrell and Morgan’s (1979) framework inspires two sets of assumptions: (1) assumptions about the social world namely, whether the social world exists in concrete or subjective domain and (2) assumptions about society namely, whether society is stable or full of irreconcilable conflicts and interpretations.

The assumptions about the social world are represented on the horizontal axis and the assumptions about social society are represented on the vertical axis (see Figure 3.1). On the horizontal axis, the social world is viewed, at one extreme, as subjective and at the other extreme, objective. The subjective end emphasises the subjective and experiential creation of reality. In contrast, the objective end emphasises the concrete nature of social science. The assumptions about the social world are about: first, what the world is, that is, ontology, second, how the world is accessed and validated, i.e. epistemology, third, whether the research participants are active or passive, i.e. the human nature and fourth, techniques and approaches for research, i.e. methodology.

On the vertical axis, society is assumed, at one extreme as stable: a regulatory view and at the other extreme, there is a view of structural conflicts in society and therefore, the need for a radical change.
The permutations of these two sets of assumptions lead to functionalist, interpretivist, radical humanist and radical structuralist philosophical perspectives that can be deployed in financial accountability and governance research. Possible perspectives are now explored.

### 3.2.3 Some Possible Financial Accountability and Governance Perspectives

This subsection explores how financial accountability and governance practices could be seen in terms of the different philosophical perspectives suggested by Burrell and Morgan (1979) including their limitations. It selects literature in the academic research that has explicitly addressed issues related to the philosophical differences, as well as literature that is frequently referred to in the contemporary accounting and governance writings as being about perspectives, based on the general familiarity with the literature. It is however, acknowledged that this selection is illustrative rather than exhaustive.

In terms of accounting genre, the debates on the research perspectives along the objective-subjective divide are evident. As Ahrens (2008:292) observes:

> ‘Methodological debates in accounting frequently emphasise the distinction between objective and subjective research’.

Subsequent paragraphs describe some useful and dominant perspectives and their relevance to financial accountability and governance practices in the NHS LIFT. The first is about the functionalist perspective on (1) the social world of financial accountability and governance practices and (2) the society within which these practices take place.

The determinist at the ontological level views the social world of financial accounting in general, and financial accountability and governance practices pertaining to the NHS LIFT, as objective. That is, the reality of practices is independent of the knower, the practitioner, who in this case may be the accountant, manager and the director and who is also, the research participant. Burrell and Morgan (1979) call this the realist ontology which

18 Burrell and Morgan (1979) use the word functionalist/functionalism/positivist/positivism which means the same as determinist/determinism and the technical view of the world. While the literature uses them interchangeably, the most familiar usage is determinist/determinism. Therefore, henceforth determinist and/or determinism are used instead of functionalist/functionalism.
principally presumes that phenomenon to be studied exists in a concrete domain, and therefore has objective existence. Also, such a perspective suggests a particular human nature: deterministic human nature (Burrell and Morgan, 1979), that is, it freezes the research participants and makes them passive and uninterested participants. Further, it presumes a stable society where instabilities and conflicts are seen as temporal and manageable, which means that the socio-political and historical contexts within which the financial accountability and governance practices take place are taken for granted.

Therefore, in order to access this objective knowledge, the determinist researcher at the epistemic level (where knowledge is validated) assumes that practices can be discovered through the deployment of scientific and value free procedures epistemology. Such an epistemology is referred to as deterministic and the researcher who uses such an epistemology is called the determinist.

The determinist would focus on for example, general accounting standards, company laws and other legislations, scientific explanations, and hypothetico-deductive models to decide what to count as acceptable financial accountability and governance practice knowledge. For a determinist, financial accountability and governance researcher, ‘statistical soundness’ and compliance with accounting standards would be accepted as criteria for acceptable research methods (Ryan et al., 2002).

Further, a determinist, at the detailed research techniques and methods level, usually uses large data, large sample size and through statistical modelling, seeks to make predictions that are statistically generalizable (Ryan et al., 2002). Therefore, the deterministist uses quantitative methods to construct models, theories which follow the hypothetic-deductive logic.

Under the determinist perspective the researcher is assumed to be passive and therefore not an active co-creator of the knowledge presented in the study.

The second perspective is interpretivism. In terms of the Burrell and Morgan’s (1979) framework, this is the direct contrast to the determinist perspective. This, at the ontological level, views the social world of financial accounting in general, and financial accountability and governance practices pertaining to the NHS LIFT, as subjective. That is,
the reality of the practices is dependent on the knower, the practitioner and the research participants. Burrell and Morgan (1979) call this the nominalist ontology. This ontological position presumes that the phenomenon to be studied exists in a subjective domain which means that its existence is due to the subjective creations of individual and social interpretations.

Such a perspective suggests a particular human nature: that is free willed human nature, which means research participants are active and interested participants in the knowledge creation process (Ahrens et al., 2008; Cooper, 1983; Hopper and Powell, 1985; Tomkins and Groves, 1983).

The interpretivist perspective presumes also, a stable society where instabilities and conflicts are manageable. The consequence of the combination of a stable society and a free willed human nature of research actors and participants is a messy world with a subjective world view (Chua, 1986).

Therefore, in order to access this subjective world, at the epistemological level, the interpretivist researcher assumes that knowledge can be discovered through a messy world of a combination of subjective interpretations and agreements with actors’ commonsense interpretations (Burrell and Morgan, 1979; Chua, 1986). Thus, the knowledge is created subjectively by the researcher and/or the research participants and/or through the inter-subjective interactions between the researcher and the research participant(s). As adopting such a perspective for studying financial accountability and governance practices would mean that the researcher and other research participants are active participants in the financial accountability and governance knowledge creation processes, there may be some biases and value-ladeness in the knowledge so generated (Hopper and Powell, 1985).

While a determinist researcher will use a large dataset with a few predefined variables to construct a statistical model that allows statistical generalisation, an interpretivist researcher will rely on qualitative enquiry: ethnography, case studies, participant observation: studying participants in their everyday practice environment, unstructured interviews to solicit both subjective and inter-subjective constructions of knowledge (Miles and Huberman, 1994).
In the context of Burrell and Morgan’s (1979) framework, the determinist and the interpretivist are essentially at the two extreme ends of the objective and subjective divide. These two extremes of research philosophies have different research aims and approaches. While the interpretivist seeks analytical generalisation (Ryan et al., 2002) which is the ability to apply findings to a theoretical position and or context; the determinist seeks to generalise his findings to the general population (Yin, 2003).

Burrell and Morgan’s (1979) philosophical perspectives presented in Figure 3.1 identify the radical humanist and structuralist as two separate philosophies. While the radical structuralist views the social world as objective, the radical humanist views the social world as individuals’ experiential interpretations and perceptions. In respect of the view of society, while the radical structuralist views society as contradictory and attributes the contradiction to fundamental conflicts inherent in economic relations and economic structures, the radical humanist views society as the reflections of individual’s consciousness, alienation and how these are shaped by ideological influence. Some have put the two radical philosophies together to form critical perspective (Chua, 1986) and this convention will be used in this thesis.

The critical perspective has been linked to the Frankfurt School and Orthodox Marxism (Alvesson, 1985). Whilst the Frankfurt School grounds its core thinking in rationality, Orthodox Marxism is based on class and power structure in the modern capitalist society. The Frankfurt School is regarded in the literature as leaning more towards philosophy and intellectual critiquing. It accordingly seeks to promote self-awareness on the basis of social critique (Burrell and Morgan, 1979). The Orthodox Marxism’s preference is the promotion of revolutionary practices (Burrell and Morgan, 1979).

As Chua (1986) offers, the critical perspective transcends both determinism and interpretivism and defines its epistemology as multidisciplinary and multifaceted. The critical perspective at the ontological level views the social world in general, and its practices as being suppressed by the dominance of an ideology. Within the critical tradition, there are many theoretical perspectives that are associated with it. As Roslender (2006) has observed, these include the Political Economy theory, Interdisciplinary approach to studies, Sociological studies and the Middle-Range thinking of Laughlin (Laughlin, 1995) among others. Therefore, in adopting critical philosophy for studying
financial accountability and governance, the orthodox view of financial accountability and governance is regarded as suppressed by both the research participants’ ideologically dominated consciousness and the socio-economic power structures. The critical researcher’s aim is to adopt a qualitative enquiry to present a social critique of the orthodoxy.

The philosophical differences suggested by Burrell and Morgan’s (1979) framework have attracted some concerns, in particular, the muddiness of the dichotomies that the framework suggests. As a result, while it is very important for this thesis to have a philosophical basis, it is cautious of the use of the dichotomous labels suggested by this framework. For this reason, the thesis attaches importance to the need to reappraise the various assumptions to assess how a particular philosophical perspective can contribute to the NHS LIFT’s financial accountability and governance knowledge and to consider ways in which these assumptions could be problematic. In this way, it is hoped, contribution could be made to the current debates about the financial accountability and governance research philosophy and methodology. Therefore, it is important to point out some of the limitations and paradoxes associated with them in the next subsection.

3.2.4 Limitations, Paradoxes and Overcoming Them

The adoption of the determinist perspective in the physical sciences could be less problematic because in such situations, the phenomena to be studied live in largely concrete domains (Chua, 1986). However, in the social sciences where social behaviour is largely mutable and dependent on time and space it is an oversimplification to rely on physical science approaches (Giddens, 1984). Also, the determinist’s reliance on a hypothetico-deductive model means that the researcher focuses on what the model is looking for and as a consequence, may in the words of Ahrens et al. (2008:853) be: ‘blind to other aspects’ of the social world.

Moreover, the assumption that the human nature is essentially deterministic could be flawed because the methodological choice processes made by the researcher are value-laden (Chua, 1986): choosing one model against another comes as a result of some cognitive processes, for example, the researcher’s experience and training, to name just two. The hypothetico-deductive models employed by the determinist also suggest that the
research subjects (actors) behave like the model: there are no ambiguities and contradictions. There are complex and contradictory aspects of the social world and therefore, the disregard of these aspects of the social world means the determinist researchers’ findings could be limiting.

In terms of the interpretivist perspective, there are some limitations and paradoxes to be noted. While it is acknowledged that interpretivist research has been very active since the early 1980s, Scapens (2008) has questioned its relevance, especially in terms of impact on, in particular, accounting practice. He has argued that interpretive accounting research has been following, rather than impacting practice, and therefore he suggests two approaches for interpretive research. First, interpretive researchers should adopt a technical critique of technical solutions offered by, for example, consultants, by commenting, challenging and drawing out their negative implications. Second, they should adopt a social critique of the consultancy accounting packages by drawing out their socio-political consequences for both organisations and society, at large. The consensus is that for interpretive accounting research to make impact it should seek technical and social critique; and also needs to strengthen its reflexive potential (eg. Ahrens et al., 2008; Armstrong, 2008; Cooper and Sherer, 1984; Laughlin, 1999; Parker, 2008 and Scapens, 2008). As Ahrens et al. (2008:842) put it:

‘What Interpretive Accounting Research should now turn its attention to, are the specific ways in which designers and users of accounting systems work with their constructive potential in the pursuit of specific agendas, and how their systems (and agendas) change in the process’.

Ahrens et al.’s (2008) paper is a polyphonic debate on the future of interpretive accounting research and has attracted various comments. The comments range from the need to critique mainstream accounting on the basis of its technical inadequacies and socio-political consequences (Scapens, 2008), to the need for solidarity among the various communities of researchers (Ahrens, 2008; Armstrong, 2008; Willmott, 2008). The signals from these comments favour critical philosophy: that is, a philosophy that will seek to subject the technical menus presented by the deterministic accounting philosophy to a social analysis and critique.
The question that may be asked is whether there can be a best or a superior perspective. One way of answering this question is by agreeing with those who inspire the need for methodological consistency, for example, Broadbent (2012); Cassell and Symon (2004); Deetz (1996), Fleetwood (2005); and Hopper and Powell (1985); Parker (2012). These have suggested that the perspective adopted should fit with the procedures for collecting, analysing and validating evidence. As Fleetwood (2005:197) has observed:

‘The way we think the World is (ontology) influences what we think can be known about it (epistemology), how we think it can be investigated (methodology and research techniques), the kind of theories we think can be constructed about it and the political and policy stances we are prepared to take’.

It can therefore be said that the researcher can choose any perspective as long as the underlying ontology, epistemology, methodology and data collection and data analysis are consistent. For example, one cannot choose an objective view of financial accountability and governance practices and then decide to use people’s interpretations to validate this knowledge. Also, one cannot choose a subjective view of the world and then decide to use predefined models to validate this knowledge.

If researchers were to organise their studies in terms of philosophical perspective, each with a particular research method, then the plurality of research communities should be a welcome development.

Some have acknowledged the wisdom in straddling perspectives, that is multi-perspective research. While Mingers (2001) emphasises that a straddling perspective has the tendency to enrich research, others are of the view that multi-perspective research is necessary for pragmatic reasons (Goles and Hirschheim, 2000). Goles and Hirschheim (2000:249) capture their support for multi-perspective research with the title:

‘The paradigm is dead, the paradigm is dead ..... long live the paradigm, the legacy of Burrell and Morgan’.

Those who favour philosophy - straddling research call for a mixed methodology approach to research (Mingers, 2003, 2004). This approach has been criticised for lacking philosophical consistency (Blaike, 1991), and also cited for possible eclecticism (Modell, 2009). While the multi-perspective philosophy is gradually growing in popularity in terms
of its pragmatism (Bryman, 2006), there are still some concerns especially in terms of its casual application by some researchers (Bryman, 2007; Merchant, 2008)). In order to deal with some of these problems, a critical realist approach (cf. Archer, 1982; 2003) which accepts a tripartite ontology and fits with a mixed method strategy is proposed (cf. Modell, 2009).

The choice of critical perspective is now discussed.

3.3 The Choice of Critical Perspective

3.3.1 Introduction

This section discusses the thought processes that have guided the choice of critical perspective regarding: first, the study’s view of financial accountability and governance (ontology); second, what can be known about them (epistemology); third, how they can be investigated (methodology and research techniques); fourth, the kind of theories that can be constructed about them including the political and value positions being taken.

While any of the perspectives can be used to study financial accountability and governance practices, the validation processes and outcomes would vary from one perspective to the other. As Broadbent (2012:73) has noted in a commentary on Parker (2012), ‘different approaches answer different questions and deal with different types of populations’. Also mindful is that the appropriateness of any particular perspective depends on a number of other factors, such as the nature of the study, research interest, aims, purpose and context of study (Broadbent, 2012; Cassell and Symon, 2004; Chua, 1986; Llewellyn, 2003; Parker, 2012). It is therefore important that an appropriate perspective is chosen in order to answer the questions set out in the introductory chapter.

3.3.2 Choosing the Critical Perspective

‘The nature of accounting policy and accounting practice is exceptionally complex and contextually defined, requiring considerable sophistication in the research approaches used to access this complexity’ (Laughlin, 2007:272).

As this thesis views accounting policy and practices as complex, it may be naïve to deploy an entirely deterministic or entirely interpretivist approach if it is to access the complex
world of accounting, accountability and governance. So a research approach is needed that is capable of discovering this complexity.

This study involves an in-depth social analysis and critique, a contextualised and socio-technical understanding of financial accountability and governance practices. It needs to choose a perspective that is transcendental to both determinism and interpretivism, thus the critical perspective became very promising at this stage. Especially, as the purpose of the study is inspired partly by calls from Broadbent (2012) Broadbent and Guthrie (2008) and Hodge et al. (2010) for more socio-technical accounting studies and by what Tinker (2001:85) holds out hope for:

‘Contemporary critical accounting: still lacks a ‘social’ character worthy of the name. This, after all, is what would be supplied by a concept of a self-activating mechanism that embodies the social relations of capitalism. The absence from our cognition of such a powerful apprehension means that the politics of ‘critical’ accounting is in danger of being reduced to the piecemeal analysis of liberal pluralism’.

In support of this, Dillard (2008:897) notes that:

‘Whether one classifies the world as interpretive, behavioural, alternative, modern, postmodern or post-postmodern, the hegemonic power of economic interests must be recognised and addressed. To counter this influence, the issues of human rights, human dignity and the human condition must be primary in our research agendas. Regardless of the theoretical or methodological orientation, the primary energy source of alternative accounting is its commitment to a more socially responsible institution of accounting. If this critical edge erodes, I fear the possibilities for progressive accounting will not be realised’.

As some sub-types of critical perspective exist, it is important to be precise about the type of critical perspective being proposed for this study. One such has distinctly revolutionary overtones: a view which seeks to propagate orthodox Marxism. This view and intention have been very prominent in the accounting literature over the years (see Bryer, 2006a, 2006b; Catchpowle et al., 2004; Cooper, 1980; Cooper and Hopper, 1987; Cooper and Sheerer, 1984; Tinker, 1980) and have focused essentially on alienating issues such as power and class in the capitalist society.

The current aim is to understand how the emergence of financial accountability and governance practices may or may not be as a result of an interaction between structures
and human agency and to critique any possible contradictions that may emerge. It ultimately raises concerns, challenges the status quo and calls for changes.

All the same, as the study raises questions about dominant conceptualization of financial accountability and governance from the determinist perspective and official claims of NPM, some ideas from the Marxist type critical philosophy have been used, for example, privileging finance capital at the expense of other stakeholders in the LIFT scheme. Therefore, the study’s current aim is very mindful of and benefits from Hopper and Powell (1985:450) observation that:

‘Critical theorists view society as being composed of contradictory elements and pervaded by systems of power that lead to inequalities and alienation in all aspects of life; they are concerned with developing an understanding of the social and economic world that also forms a critique of the status quo’.

There is a concern of possible eclecticism in critical research (Blaike, 1991). Mindful of this concern, it is important to note as Dillard (2008:897) puts it:

‘Critical perspective’s eclectic theoretical and methodological appreciations place its researchers in unique position as they present integrative skills’.

Thus, critical accounting research is unique as it makes it possible for critical researchers to feature new theories and approaches from often neglected accounting research communities (Cooper, 2008). For example, from the late 1980s Laughlin and Broadbent have been actively contributing to critical accounting theory, particularly drawing on Habermas’ colonisation of the lifeworld by systems (Broadbent et al., 1991; Laughlin, 1987, 1995, 2004). Through these studies, it becomes possible to reveal concerns and pathologies such as a decrease in shared meaning and mutual understanding, disintergration, alienation, demoralization and social instability and crisis that has resulted from NPM-based prescriptions.

Further, as this study aims to understand why, and how certain financial accountability and governance practices emerge in the NHS LIFT, the technical details such as of the LIFT and PCT’s financial reports, Accounting Standards, Treasury guidance, the board of directors as an arrangement and other technical arrangements are not in themselves enough for understanding financial accountability and governance practices. This is because the
metaphorical underpinnings of such technical details are lost from view and the technical
details are misconstrued as reality. As Amernic and Craig (2004) observe, the reliance on
the technical details alone will trivialise organisational practices as merely technical
mechanisms, but rhetoric and metaphors around the technical details are value laden and
have ideological footprints and this should not be disregarded. However, as Morgan
(1980:612) cautions:

‘No one metaphor can capture the total nature of organizational life. A conscious and
wide-ranging theoretical pluralism rather than an attempt to forge a synthesis upon
narrow grounds emerges as an appropriate aim. Different metaphors can constitute and
capture the nature of organizational life in different ways, each generating powerful,
distinctive, but essentially partial kinds of insight. The logic here suggests that new
metaphors may be used to create new ways of viewing organizations which overcome the
weaknesses and blindspots of traditional metaphors, offering supplementary or even
contradictory approaches to organizational analysis’.

Therefore, in order to understand the NHS LIFT’s financial accountability and governance
practices, it is suitable to move beyond their technical forms and official claims by drawing
on the insights that metaphors and rhetoric present, in addition seeking the influence of the
socio-techno-political, institutional and economic context (eg. Craig and Amernic, 2004,
2006, 2008). Through these, there is the opportunity to use a theoretical approach that
explains not only the technical but also the social. This theoretical approach is an
interdisciplinary one (Laughlin, 1999, Roslender and Dillard, 2003).

Furthermore, as Chua (1986:620-621) observes, critical ontology and its epistemology
emphasise that:

‘An identity/event of an object can only be grasped through an analysis of its history –
what it has been, what it is becoming, and what it is not’.

This means that the historical development of the NHS LIFT, as a policy and as a scheme
and its financial accountability and governance is important as well. Therefore, the
theoretical framework also involves identifying the historical context in order to
understand the contemporary practices. The examination of the neo-liberal and
financialisation in chapter two serves this purpose. Research methodology and methods are
now explained.
3.4 Research Methodology and Approach

3.4.1 Introduction

This section deals with the research methodology that guides the study and a choice of case study approach. The point is to highlight the relevance, benefits and possible limitations of the research processes through drawing extensively on the general organization studies literature including accounting studies genre.

3.4.2 Research Methodology

There is an acknowledgement in the literature that some researchers take methodology to mean methods. This study, in agreement with Ahrens and Chapman (2006:820) thinks that qualitative study is not simply empirical but ‘a profoundly theoretical activity’, therefore, taking methodology to mean methods would be overly simplistic. This is because this study wishes to view the world as social, rather than describing it as if the world is part of a given nature. Therefore, as Ahrens and Chapman (2006:822) have done, this study sees a distinction between methodology and methods:

‘Methodology is the general approach taken to the study of a research topic, which is independent from the choice of methods, such as interview, observation, or questionnaire’.

Methodology can be regarded as a way to investigate the world\(^\text{19}\) (Ahrens and Chapman, 2006; Laughlin, 1995). As Fleetwood (2005) has observed, how the world can be investigated is influenced by the way we think the world is. Therefore, the critical ontology which involves both objective and subjective views of the world is necessarily influential in determining a way of investigation. Accordingly, the research methodology deployed has a singular goal of satisfying the character of the critical ontology view held in this study.

Broadly, research methodology can be categorised into quantitative, qualitative and mixed (Bryman, 2006; Modell, 2009). It is widely acknowledged that the quantitative approach has contributed immensely to accounting and governance research and has also been dominant (Brown et al., 2007). However, as the study views financial accountability and

\(^{19}\) The world used here refers to the social world, the messy, emergent, dynamic, contextualised, subjectively created world which is objectified through some human interaction.
governance practices as necessarily complex, a qualitative research methodology is viewed as more appropriate. However, since a qualitative research methodology is a set of interpretive activities, a site of discussion or discourse, because multiple theoretical perspectives claim use of it and therefore privileges no single perspective over another, it becomes difficult to define clearly (Denzin and Lincoln, 2000).

Nonetheless, qualitative research emerges as contributing to an understanding of accountability processes, embracing contextual complexities, offering critical and reflective understandings as well as having the capability of addressing the concerns of practitioners as well as policy makers (Parker, 2012). Also, qualitative research offers the use of analytic induction and focuses on meaning, maintaining a close proximity to data and offers the opportunity to link agency (with human agency being of particular relevance in this study) to structure through accounts based on the study of events including routines across time and space (Ahrens and Chapman, 2006).

In summary, the qualitative research methodology deployed in this study pursues issues of meaning and interpretation in the social world of LIFT financial accountability and governance. It seeks a holistic understanding and critique of lived experiences and behaviours of the research participants, for example, directors, in the LIFT’s social settings. It does these through the researcher’s engagement with accounting and governance’s interaction with its institutional, organisational, economic, socio-political and technological contexts.

In the qualitative accounting research genre, the most frequent means of engagement with organisational processes and accounting practices has been case study-based, which offers a conduit to a deeper understanding of accounting practices (Ahrens and Chapman, 2006; Parker, 2012). Accordingly, case study is the qualitative approach chosen for this study and details of it are now explained.

3.4.3 The Choice of the Case Study Approach
Case study techniques have gained increasing acceptance in accounting research. In a recent study on public sector accounting research (Broadbent and Guthrie, 2008), case study technique comes as the second most popular research technique among six techniques. This evidence does not suggest that other techniques are inferior. Rather, as the
methodology literature suggests, research techniques in general and case study in particular, are not chosen on the basis of availability but on the basis of their consistency with the research philosophy (Chua, 1986; Ryan et al., 2002). Case study technique has been identified as appropriate and useful in understanding the hows and whys questions and as useful when the researcher seeks to engage with practice (Broadbent and Guthrie, 2008; Ryan et al., 2002; Yin, 2003).

This means that with the case study approach, it is possible to understand the accountability techniques which are mobilised in LIFT in practice, and why and how they are mobilised.

Case study can be mobilised in a variety of forms for accounting research. These include: (1) descriptive (2) illustrative (3) exploratory (4) experimental and (5) explanatory (Ryan et al., 2002). The descriptive case study seeks to describe for example, the best accounting practices but as acknowledged in the literature, the issue of best practice can be very contentious and therefore very difficult to justify. Illustrative case study on the other hand illustrates for example, new and innovative accounting systems. This is not without problem because such a case study is also open for criticism, especially, on the implicit assumption of best, new or innovative practice which underpins it. There can also be an experimental case study which is essentially normative and theoretical and seeks to suggest what should be the practice.

Sometimes, case study may be for exploratory purposes but for Ryan et al. (2002), this is usually associated with the deterministic perspective in that it is used to look for concepts that are further tested by large scale database. There could be an explanatory case study. This type of case study is used to attribute reasons for observed practice. It is usually specific and used to generate theories. Explanatory case studies are identified with non-deterministic studies. Ryan et al. (2002) acknowledge that the distinctions among these types of case studies is always very difficult which means their use could be problematic.

However, while the thesis acknowledges this difficulty and the view that it is very difficult to produce a case study without any pitfalls, it is guided by the view that better case studies present explanations that reflect some theoretical propositions (Humphrey, 2001; Humphrey and Scapens, 1996; Yin, 2003). This case study has features that lean towards
the explanatory as it is used to explain the LIFT’s existing financial accountability and governance practices by subjecting the empirical data and theory to dialectical analysis, that is, using the empirical data to interact with the theory (Humprey and Scapens, 1996; Humphrey, 2001). The intention is to generate theories that will help provide good explanation for the LIFT’s financial accountability practices.

Case studies have been generally criticised for lacking statistical generalisation (population validity) because they rely on a small sample size. As this thesis relies on two cases it may be so criticised. It is important to indicate however that while the thesis does not in any sense underestimate the importance of statistical generalisation, it does not seek any statistical generalisation. Rather, it seeks to mobilise the richness of the details that the case study presents to make analytical generalisation (Ryan et al., 2002), that is, generalising conclusions to theories, context and to LIFT schemes in similar circumstances.

3.5 The process of data collection

3.5.1 Introduction

This section discusses the process of selecting the case study organisations and outlines the data sources for the cases, including an outline of the process of identifying interviewees, an explanation of the number of interviewees, their position and role in the case organisations and the difficulties in obtaining interviews. In addition, it gives some guidance about the nature of the interviews, the sufficiency of the data obtained and ethical issues and how they were addressed.

3.5.2 Selecting the cases

An initial internet search was conducted to gather information on the various LIFT schemes in England. The theoretical interest of the researcher played a role in the selection of the cases. This is because the case study is not just part of an empirical world but is essentially shaped by the theoretical interests of the researcher (Ahrens and Chapman, 2006). Therefore, it was decided for reasons of access and convenience to focus on the XXX area (pseudonym) of UK because the location of the LIFT scheme did not undermine the theoretical interest of the researcher.

While convenience and access were very important in the selection of the cases, the research purpose and questions were also very influential in the selection. In particular, the
selection was done in such a way that each case differs from the other. The immediate criteria were (1) the size of partner organisations: big versus small players (2) the project timing: how long has the project been operational. Two cases were ultimately selected, which for ethical and confidentiality reasons are anonymised as JV1 and JV2 cases.

While one case involves a small regional-based private sector partner, the other involves a bigger multinational private sector partner. Also early waves of LIFT schemes with operational projects were preferred because this gave more data for analysis. In all, the strategy was to see whether size, experience, setting and time would produce some nuance. As it turned out, these raise some critical issues of interest. For example, an interaction between size, and allocative and authoritative resources appears to have had some implications for governance and financial accountability. There was thus, a theoretical intention in the case selection, reflecting what could be described as theoretical sampling (Ryan et al., (2002).

3.5.3 Collecting data - Methods for Data Collection

The data gathering techniques used in this study include analysis and reviews of publicly available documents and interviews. These are discussed in turn.

- Publicly available documents

Consistent with the view that financial accountability is largely socially constructed, this section proffers a critical approach to making sense of how LIFT is accounted for in financial terms. As Amernic et al. (2000) comment, the critical approach requires a ‘close reading’ of text, or indeed any discourse and can deploy a wide variety of reading strategies, including various deconstructions, analysis of metaphor, analysis of rhetoric, critical discourse analysis, and more classical literary approaches. Therefore, for this thesis, data has been drawn from wide readings of discourses on LIFT. These are drawn from sources such as documents gathered from Company House and downloaded directly from relevant public sector and government websites, documents prepared by management consultants such as DLA Piper, PWC, letters to shareholders, LIFT board minutes, articles in newspapers and research reports. The reports examined include financial reports of both JV1 Ltd and JV2 Ltd, that of their subsidiaries, financial reports of relevant Primary Care Trusts (PCTs), Local Authorities and the private partners.
of JV1 Ltd and JV2 Ltd\textsuperscript{20}. All these reports have been prepared by human agents in their roles as directors.

Where documents were not in the public domain, requests were made under the Freedom of Information Act 2000. However, it was not possible to obtain these documents from case organisations despite these requests, which means that FoI did not provide a conduit to obtain any such additional information. This difficulty has been interpreted as a research finding as it has implications for accountability in terms of transparency.

Using documentary sources for data collection is not without problems. In particular, as Stafford (2002:73) observes:

‘there are issues with documents in terms of hermeneutics of reading documents especially that documents construct their own social reality and are not neutral texts’.

This observation calls for caution in reading and attributing meanings. In order to minimise any false meaning, data has been collected from multiple document sources as a form of data triangulation (Hopper and Hoque, 2006:482; Ryan et al., 2002), that is, cross checking data using multiple document sources.

The various documents and financial reports were examined and issues were raised in a set of detailed unstructured face-to-face interviews and some structured set of questions. The study also relied on additional general information in so far as it is relevant to the LIFT scheme and policy. This use of multiple document sources and the interviews was to seek confirmation and clarity, a form of triangulation, in order to increase data reliability.

- Interviews

Interviewees were selected firstly because they held an appropriate and senior role in relation to the LIFT project and secondly because it was possible to gain access. Interviewees had all been involved in the NHS joint venture projects, and were particularly individuals with knowledge of finance and financial reporting at a senior level in the NHS and NHS related companies and the relevant LIFT Companies. Here, loosely and semi-

\textsuperscript{20} JV1 Ltd and JV2 Ltd are respectively, the LIFT companies of the JV1 and JV2 schemes
structured LIFT related questions that harness interaction, detail and conditions required for social construction (King, 2004) are used. The intention was essentially about plausibility and about seeking an overview of issues from the perspectives of practitioners to help me confirm information from documents and develop an informed view of the subject I am studying. In particular, my research aim is essentially to understand how LIFT once operational is accounted for and governed, and I was therefore interested in obtaining information about the financial accounting and accountability issues. The interviewees were chosen to be representative of the accounting and general management functions. The thesis did not therefore consider issues of clinical governance.

- Interviews for the JV1 scheme

Through a contact, who was introduced to my supervisor, the first interviewee (D1a) was identified and access was successfully negotiated. Snowballing was used, with this first interviewee giving contacts for the second set of interviews for the JV1 scheme, which involved four interviewees (D1b; D1c; D1d and A1). In total, five interviewees were interviewed for the JV1 case (see Table 3.1).

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Organisation</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>D1a</td>
<td>PCT1</td>
<td>Former CEO, Chair of Board</td>
</tr>
<tr>
<td>D1b</td>
<td>PCT1</td>
<td>Finance Director, PCT</td>
</tr>
<tr>
<td>D1c</td>
<td>PCT1</td>
<td>Director of Corporate and Public Affairs, PCT</td>
</tr>
<tr>
<td>D1d</td>
<td>JV1 Ltd</td>
<td>CEO</td>
</tr>
<tr>
<td>A1</td>
<td>Accounting firm</td>
<td>Advisor to LIFT scheme</td>
</tr>
</tbody>
</table>

The objective of the first interview was to acquire some background information about the JV1 scheme and to seek contacts for further interviews. The interviewee (D1a) for the first round had worked with the JV1 scheme from its inception and was a chair of the Strategic Partnering Board (SPB). He had resigned by the time of the interview. Through the interview the researcher obtained the expected background information, certain key organisational issues were identified and very useful contacts were obtained through which the second set of face-to-face interviews became possible.

The second set of interviews involved two senior public sector executives from the PCT, the Chief Executive Officer (CEO) of JV1 Ltd and an advisor from an accounting firm. The
interviewees were very cooperative, in other words, talked freely and provided their own interpretations of their experiences and gave very relevant responses. The interview questions and themes were around the organisation of LIFT, its financing, financial reporting, corporate governance and oversight and perceptions of benefits and drawbacks. Some of the specific questions around the organisation of LIFT were identified in the first interview and were probed further during the second set of interviews. The rest of the questions were around issues raised from the official documents and financial reports such as challenges of partnership working.

- **Interviews for the JV2 scheme**

Table 3.2: List of interviewees for JV2

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Organisation</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>D2a</td>
<td>LA</td>
<td>Former chairperson of the SPB for JV2</td>
</tr>
<tr>
<td>Q2a</td>
<td>PCT</td>
<td>Finance Director, PCT</td>
</tr>
<tr>
<td>Q2b</td>
<td>PCT</td>
<td>Deputy Finance Director of PCT</td>
</tr>
</tbody>
</table>

For the JV2 scheme, an internet research identified eight potential interviewees who were contacted by email, letter and phone. However, due to changes in personnel and in local PCT structures four PCT contacts felt they were unable to contribute to the research. A former chairperson (D2a, see Table 3.2) of the SPB, who has been involved with the JV2 scheme and has some experience with PPPs in general was interviewed. This interview explored questions and themes based on oversight and financial accountability, transparency, cost and affordability issues, partnership working and issues of financing and perceptions of LIFT benefits and drawbacks.

There were difficulties in obtaining further interviews. An intended second set of interviews for the JV2 scheme was postponed twice by the respondents and was later replaced by a set of structured questions, which were emailed and answered jointly by a public sector – representing director (Q2a, see Table 3.2)\(^\text{21}\) of JV2 Ltd and a public sector (PCT) deputy director (Q2b, see Table 3.2) who has played a significant role in the JV2 case. The nature of the questions were based on oversight and financial accountability, cost and affordability issues, partnership working and issues of financing and perceptions of LIFT benefits and drawbacks and included confirmation of some documentary evidence.

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\(^\text{21}\) This director was a former public sector – representing director of JV2 Ltd but at the time of the interview was finance director of one of the PCT partners of the JV2 scheme.
Despite repeated requests the JV2 CEO, representing the private sector, declined to be interviewed.

The interviews were audio recorded and then transcribed. These are not without problems. As Kvale (1996:163) observes:

‘The transcripts are ... artificial constructions from an oral to a written mode of communication. Every transcription from one context to another involves a series of judgements and decisions’.

Mindful of this, this thesis has sought to achieve reliability and validity by seeking follow on confirmation where possible. However, where it is impossible to seek confirmation but there is other documentary evidence, this thesis has relied on such sources for confirmation. Also, some publicly available documents were validated through interview questions.

The difficulties in obtaining interviews for JV2 and difficulties in obtaining documents not in the public domain from case organisations, created a methodological dilemma as to whether the data obtained was sufficient. Measures have been taken to address this dilemma. Firstly, following reflection and discussion, it became clear that publicly available data had been complemented by sufficient interviews and written answers to address all the research questions and satisfy the theoretical issues. Secondly, collecting data and writing concurrently helped significantly as it came to a point where it was clear that the research and the theoretical questions have been satisfactorily addressed.

Thirdly, the difficulties in obtaining interviews for the JV2 scheme have been interpreted as a research finding as they have implications for accountability in terms of transparency. These are reflected in the lack of transparency evident in the JV2 scheme, which contrasts with the relative openness in the JV1 scheme where interviews were obtained with no difficulties. The accountability issues that arose from the difficulties in obtaining interviews in the JV2 scheme are explored further in chapter 8.
• **Ethical issues**

As the data collection required personal involvement of the researcher and other human and organisation participants, it raised some ethical concerns and dilemmas, which were addressed through a number of measures. Before embarking on the fieldwork, I applied for and was granted ethical approval from the University’s ethical approval committee.

Two documents were used for ethical assurance: a participant information sheet and a participant consent form. Before each interview, the interviewees were given an information sheet detailing the aims of the research, what would be required of them, their right to withdraw or change their minds, potential burden and risks and why they have been chosen and maintenance of confidentiality. Also, consent forms were given to the interviewees to sign. This approach is an ethical responsibility that is necessary for three major reasons:

- First, it is to avoid forcing participants into the study and thus making it possible for participants to be forthcoming in their responses.

- Second, it is a way of observing confidentiality and consent agreements. In respect of confidentiality, the cases and the interviewees are anonymised and where a need to cross check with other interviewees arose, great care was taken to ensure that the interview questions were structured such that the source of information was not given away so as not to compromise any interviewee’s confidentiality.

- Third, it is a way of minimising any potential risks such as exposing the interviewees to their political masters and government officials who may dispute the research findings and victimise them.

### 3.6 Case Analysis

As the practice of qualitative study involves an ongoing reflection on data and its positioning against different theories such that the data can contribute to and develop further chosen research questions (Ahrens and Chapman, 2006:820), data collection,
writing and analysis were done concurrently. In short, they all involve an iterative process. In agreement with Wolcott (2001), this approach is effective as writing gave purpose and focus to the searching for new data and reviewing of old writings. Emergent findings from an initial analysis shaped subsequent data collection which in turn shaped successive analyses and modified research questions. The ultimate goal in the data analysis is to connect data and theory to compelling research questions. It involves more than simply choosing definitions and categories, and developing interpretations of data at will. Data analysis, as Ahrens and Chapman (2006:820), have observed, is a ‘source of great discipline’ as it requires a careful connection of data to compelling research questions.

Mindful of Strauss’ (1987) open coding strategy, the approach for the choosing of definitions, categories for analysis and interpretation has been to draw essentially, on the empirical data inductively for some insights. This also, has been an iterative process as emergent categories and definitions were shaped by subsequent empirical findings and subsequent readings of the literature.

In addition, the analysis is mindful of Giddens’ (1984) multiple levels of knowledge, and so presents the empirical data at two levels. The first level involves telling the story as told by the data, that is at face value. By this, it is being suggested that the respondents, managers, accountants, directors, by their doings and descriptions of their mundane work life present a first order theory. This is done, mindful of Prasad and Cavanaugh (1997:314), that there is (1) ‘the surface level of instrumental action and (2) the deeper level of meaning involving ideology, culture, symbolism, and the like’. The first level analyses the technical details of the financial accountability and governance as presented in the balance sheets and profit and loss accounts and other documents and reports and interview data in respect of organizations associated with the two cases.

However, because of the thesis’ view of financial accountability being socially constructed, the technical details are viewed as socially constructed and therefore, could mean more than the technical mechanisms suggest. By this, it means that the technical detail may be mere belief which could not necessarily be justified and therefore could not be presented as truthful or as knowledge. Therefore, in order to make sense of LIFT’s financial accountability, other qualitative data is brought to bear on the technical details.
However to analyse the data was one key difficulty as I could not find a template. Another key difficulty was how to deal with the volume of data gathered and to filter what was necessary for analysis and reporting. Deciding on what to include and what not to include was a major headache especially as I have collected a great deal of data over time. However, as I engage with the literature, I realised it was acceptable to analyse in terms of the literature, discourse, research questions and the theory. This clue helped overcome the dilemma.

Therefore, the thesis analyses using discourse analysis techniques. Through discourse analysis, each case analysis is based on themes that reflect the research questions, the purpose of the study, the literature and as emerged from the empirical data and insofar as they address the theoretical issues.

The data analyses were based on continuous reading of the gathered data by the researcher and the researcher’s reflexivity (Parker, 2008; 2012). Each case analysis begins with the organising elements of the relevant LIFTCo that involve elongated structure. From this, all other structures including the capital structure, board of directors, accounting and financial reporting are linked to the organising elements and the actions as well as issues flowing between them were identified.

A cross case analysis (Miles and Huberman, 1994) was used, comparing findings across the two cases to identify similarities and differences. Accordingly, the second case emphasises some basic features, and major differences from the first case.

Subsequently at the second level of analysis, the thesis draws on Giddens, (1979; 1983; 1993) for a deeper level of meaning that involves interactions and interwoveness of structures of signification, legitimation and domination and human agency. This identifies how the financiers, private participants and the NHS are being represented and how this reflects in the financial reports and oversight arrangements, thus representing the second level of knowledge suggested by Giddens (1984).

Whilst an initial review of the accounting literature hardly identified structures and human agency, a preliminary examination of the empirical data identified relevant categories such
as (1) accounting standards, Companies Act, organisation form (partnerships, parents and subsidiary companies); and (2) the expertise, transformative capabilities and power of accountants, managers and directors. At this first iteration however, these categories had not been conceptualised under either structures or human agency.

Following further exploration of the philosophy literature some cautious decisions were made around some of the preliminary findings from the empirical data. At this stage, the two sets of categories outlined were conceptualised as structures and human agency respectively. Further empirical examination of the data suggested some interaction between these structures and human agency, which can be better explained through Giddens’ structuration theory. For example, accounting standards exemptions relating to subsidiaries appeared to both constrain and enable financial accountability and governance practices. In other words, structures both restrain and permit manipulation of rules.

It was sometimes very difficult to apply aspects of Giddens framework as some of the central ideas in the framework were difficult to operationalise. For example, it became difficult to explain the virtual existence of structures as explained by Giddens. As a result, multiplicity of structures (Sewell, 1992) was introduced to help explain virtual structures, and also, the framework was taken as a sensitizing device as advised by Giddens himself (Giddens, 1984).

In short, the second level of analysis involved the researcher studying, exploring deeper and applying a particular perspective to produce a second order theory. However, as Macintosh and Scapens (1991) have noted, different perspectives may produce different analyses, consequently this analysis may be speculative. The limitations of Giddens’ theory biases are examined in section 5.8 and the limitations of the study as well as researcher biases are examined in section 8.2.

3.7 Conclusion and Summary

This chapter has discussed aspects of the philosophical perspectives that could be used in academic research. It acknowledges that any perspective can be chosen as long as it can

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22 This includes Financial Reporting Standards (FRSs), International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs).
address the research questions and purpose. Bearing this in mind, the thesis uses a critical perspective for studying LIFT’s financial accountability and governance practices. The chapter then discussed how the qualitative research method based on case study technique was chosen. The chapter discussed interviews and questionnaires as methods for data collection. In addition, the chapter outlined themes and discourse as bases for analyzing its findings at a first level and proposed Giddens’ theory to interpret the findings at a second level.
Chapter Four: Accountability and Governance: A review

4.1 Introduction

4.1.1 Aim and Purpose

In order to position and study financial accountability and governance practices in the LIFT scheme, it is important to examine the literature on the nature, scope and content of financial accountability and governance studies in general and on PPPs and LIFT in particular. So this chapter conceptualises accountability and governance and their central variables. It then examines some broader categories of the prior literature on financial accountability and governance. The point is to show that research in each of these broader categories tends to examine financial accountability and governance in particular ways that are substantially different from the other. Especially there are differences in terms of the relative importance that each places on the two central variables of financial accountability and governance – namely structures and human agency.

This chapter further argues that recursive interaction between structures and human agency based research is one approach that can appropriately answer recent calls for more socio-technical studies in the literature and thus complements the prior literature. Therefore, it concludes by proposing the use of Giddens’ structuration theory, which enables a consideration of the recursive interaction between structures and human agency.

4.1.2 Outline of the Chapter

The remainder of the chapter is organised in seven further sections. Section 4.2 conceptualises accountability and governance in terms of the broader scope and central variables, highlighting the existing evidence on structures and human agency that are involved in the study of financial accountability and governance. The next three sections: 4.3, 4.4 and 4.5 examine the three broader categories of the prior research with section 4.6 exploring their limitations. Section 4.7 considers the form that the recursive interaction might take and introduces Giddens’ structuration theory as a suitable framework. The chapter concludes in section 4.8 with a summary and discussions.
4.2 Accountability and Governance: Nature, Scope and Composition

4.2.1 Aims and Purposes

This section examines the concepts of accountability and governance. The section draws on some key suggestions on the scope of accountability. It then emphasises financial accountability, namely the use of, for example, profit and loss accounts and the balance sheet and governance, for example, corporate governance, the financial aspects of governance, the board of directors and its processes. Both financial accountability and governance are taken as a subset of the accountability genre.

4.2.2 Nature of Accountability and Governance

The concepts of accountability and governance have over the years, been dominant in public discourse as their importance and acceptance in both the public and private sectors are universally hailed. However, it is widely noted that they are complex. Part of the reason is that there appears to be lack of consensus on their definitions. Not only do definitions vary, but also, they evolve across time and space. For example, over the years, accountability in the UK public sector has evolved from rule and public service ethics-based to finance-based (e.g. Ellwood, 2009; Ezzamel and Willmott, 1993; Shaoul et al., 2008a; 2010). Also, as Lupson (2007) points out, the definition of accountability is context dependent as it is defined differently in different contexts. Some, as noted in Bovens (2010), take accountability and governance as synonyms to the extent that accountability has become evocative and slippery (e.g. Bovens, 2007a; 2007b; 2010; Considine, 2002; Fisher, 2004). Therefore as Bovens (2007a: 448-449) describes:

‘Accountability is one of those golden concepts that no one can be against. It is increasingly used in political discourse and policy documents because it conveys an image of transparency and trustworthiness. However, its evocative powers make it also a very elusive concept because it can mean many different things to different people, as anyone studying accountability will soon discover. Accountability is one of those evocative political words that can be used to patch up a rambling argument, to evoke an image of trustworthiness, fidelity and justice, or to hold critics at bay. As an icon, the concept has become less useful for analytical purposes, and today resembles a dustbin filled with good intentions, loosely defined concepts and vague images of good governance’.

The consequence is that it has become increasingly unfeasible and unfruitful to seek a universal definition. Bovens (2010:947) notes: ‘If accountability is everything, it may be
nothing’, and it is a situation that some have identified as a strong hindrance to systematic comparative scholarly analysis. As Bovens (2010:946) observes:

‘Much of the academic literature on accountability is rather disconnected, as many authors set out to produce their own specific definition of accountability. Every newly edited volume on accountability and even worse, each of the individual chapters within these edited volumes uses its own concepts, conceptualisations and frames for studying accountability’.

It must be noted however that this is not necessarily a bad development. Instead, it shows that concepts such as accountability and governance could be confounding, incoherent and complex and should not be studied as unproblematic. As Yang (2011:15) warns:

‘As structural aspect of governance, accountability is not necessarily “good” or “bad” in and of itself. We should not trivialize accountability as simple managerial tools, nor should we idealize it as something we should uncritically pursue’.

Mindful of the complex nature of these two concepts, rather than provide specific definitions, the next section attempts to discuss the scope and composition of accountability and governance.

4.2.3 The Scope of Accountability

This subsection is seeking to identify a broader scope and a composition of accountability that could help draw a boundary between what does and does not count as accountability. Following Bovens (2007a; 2010) and Koppell (2005) it identifies accountability as broadly consisting of virtue and social relation, which are presented as follows.

- Accountability as a virtue

On one hand accountability can be viewed as a virtue and conveys the images of (1) transparency: making the invisible visible, clarity, involvement, deliberations, participation; (2) responsibility: compliance; (3) responsiveness; (4) liability and (5) controllability (Bovens, 2010; Koppell, 2005). The virtue view, despite its appeal in the sense of the positive images it conveys, remains very ideographic, rhetorical, contestable and slippery and thus differs from role to role, time to time and from speaker to speaker.
By this, the concerns which were raised with the definition of accountability still remain. To overcome the ideographic character of the virtue conception of accountability some helpful operationalisation of these terms has been done by Koppell (2005) and is presented in Table 4.1.

Table 4.1 is useful as it could be easily adapted to determine whether any of the virtues in the table are present in the behaviour of social actors in the context of this study. These are thus identified as exemplars of accountability behaviour and good governance and as noted, in for example AccountAbility (1999; 2008); Bovens (2007a); Munro (1996); Roberts (2009), are desirable qualities expected of social actors like accountants, managers and directors in their day-to-day conduct and decision making. Therefore, a lack of accountability and bad governance would be the absence of these behaviours and any ability or condition that is capable of concealing decisions and making actions invisible (Munro, 1996).

Table 4.1: Conception of accountability as a virtue

<table>
<thead>
<tr>
<th>Virtues</th>
<th>Key determination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency</td>
<td>Did the organization reveal the facts of its performance?</td>
</tr>
<tr>
<td>Liability</td>
<td>Did the organization face consequences for its performance?</td>
</tr>
<tr>
<td>Controllability</td>
<td>Did the organization do what the principal desired?</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Did the organization follow the rules?</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Did the organization fulfill the substantive expectation (demand/need)?</td>
</tr>
</tbody>
</table>

(Koppell, 2005:96)

- **Accountability as a social relation**

On the other hand, accountability as a social relation is about demanding and giving reasons for conduct. The analytical elements of accountability as a social relation are presented in Figure 4.1 below.

The framework as presented in Figure 4.1 presents accountability in a more sociological sense where it is conceived as a social relation that involves an obligation to give, explain,

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23 Bovens (2010) uses social relations and mechanisms interchangeably. They mean the same thing. This study uses social relations as the preferred term.
justify and a right of a significant other to demand reasons for conducts (Bovens, 2007a; 2010). Identified in this, are a number of analytical elements and four questions. The analytical elements involve a relationship between an actor or actors (agents, directors) and a forum: described as a significant other, for example shareholders, regulators, in which the actor(s) is/are obliged to explain and justify his conduct, and the forum can pose questions and pass judgment such as whether for example the director is upholding his fiduciary and legal responsibilities under say, the Companies Act and the actor may face consequences (sacked, reprimand). As Bovens (2010:951) observes:

‘This usually involves not just the provision of information about performance, but also the possibility of debate, of questions by the forum and answers by the actor, and eventually of judgment of the actor by the forum. Judgment also implies the imposition of formal or informal sanctions on the actor in case of malperformance or, for that matter, of rewards in case of adequate performance’.

Bovens (2010) suggests that in the relationship presented in Figure 4.1, four questions are required to be asked in order to demand and give reasons for conduct:

- To whom is account to be rendered? This is to help in identifying the type of forum to which an actor is required to render accounts.

- Who should render account? This is about the actor who could be an individual or group of people or an institution required to appear before a forum.

Figure 4.1: Accountability as a social relation

Actor(s) → forum

Informing about conduct → debating → judging

Consequences

Informal

Formal

(Source: Bovens, 2007a:454).
• What account is to be rendered? It concerns the aspect(s) of the conduct about which information, explanations and justifications are to be provided.

• Why does the actor feel compelled to render accounts? The answer to this question depends on the nature of relationship between the actor and the forum, the issue of obligation and the nature of obligations.

The two components of accountability are complementary in the sense that they work together to bring meaning. As Bovens (2010:962-3) observes:

‘Accountability mechanisms are meaningless without a sense of virtue, and vice versa, there is no virtue without mechanisms. Distinct as they are, the two concepts are closely related and mutually reinforcing. There is no accountable governance without accountability arrangements. Accountability mechanisms keep public actors on the virtuous path and prevent them from going astray’.

In highlighting how the two components could reinforce each other Bovens (2010) offers the various analytical and evaluative dimensions of the two components which are presented in Table 4.2 below.

Table 4.2: The two components of accountability

<table>
<thead>
<tr>
<th>Accountability as</th>
<th>Virtue</th>
<th>Social relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locus</td>
<td>Behaviour of actor</td>
<td>Relation actor-forum</td>
</tr>
<tr>
<td>Focus</td>
<td>Evaluative and prescriptive standards</td>
<td>Analytical and descriptive, effects of arrangements</td>
</tr>
<tr>
<td>Field of study</td>
<td>Good governance</td>
<td>Political and social control</td>
</tr>
<tr>
<td>Research design</td>
<td>Dependent variable</td>
<td>Independent variable</td>
</tr>
<tr>
<td>Importance</td>
<td>Legitimacy</td>
<td>Various goals</td>
</tr>
<tr>
<td>Deficit</td>
<td>Inappropriate behaviour</td>
<td>Absent or malfunctioning mechanisms</td>
</tr>
</tbody>
</table>

(Bovens, 2010:962)

In summary, accountability is identified as broadly consisting of both a virtue and as a social relation. As a virtue, five notions were outlined: transparency, liability, controllability, responsibility and responsiveness. As a social relation, five components of
accountability were also outlined: (1) actor(s), (2) obligation to give, debate, explain and justify (3) a right of a significant other to demand reasons for conducts (forum) and it involves (4) judgment and has (5) consequences including sanctions.

As Bovens (2010) has suggested, the practical meaning and relevance of these components may be deeply interwoven in the context of application, semantics, etymology, research agendas, and types of studies. It is therefore important to adapt them for the purposes of this study. So, in LIFT, accountability as a social relation focuses on the relationship between agents (managers, accountants and directors) and forum. It raises questions about what actors are in this forum. Also, accountability as a virtue focuses on the actual performance of these agents, such as making desired profit, delivering financial returns, following IFRS, preparing financial reports, disclosing liabilities among others. In all these, two arrangements are involved namely: first, the use of profit and loss accounts and the balance sheet and, second, the use of board of directorship and its processes. In this study, the former is referred to as financial accountability and the latter is referred to as governance and both are taken as subsets of accountability. The next section examines the central variables of financial accountability and governance.

4.2.4 Financial Accountability and Governance: The Central Variables

This section explores the central variables and gives an indicative list of them. The composition of both financial accountability and governance can be analysed into two central variables namely structures and human agency. A search in the literature using keywords such as accountability, financial reporting, governance, corporate governance, board of directors, accounting, Neo-liberalism, NPM, PPP, PFI, LIFT, accounting research, governance research, accountability research reveals some examples of structures, human agents and human agency in financial accountability and governance. In this search, the approach has been to draw largely the empirical data inductively and has been iterative. The examples, which are selected from across literature relevant to both the public and private sectors are now described. Firstly, structures are roughly the objective features of financial accountability and governance. A summary of these, with a relevant list of literature is presented in Table 4.3
<table>
<thead>
<tr>
<th>Key structures</th>
<th>Relevant selected references</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS conceptual framework, IFRS, FRS</td>
<td>Cairns et al., 2011; Elwood, 2009; Granlund, 2001; 2002; Heald and Georgiou, 2011; Hodges and Mellett, 1999; Tollington, 2006; Shaoul et al., 2010; Uddin and Choudhury, 2008;</td>
</tr>
<tr>
<td>Corporate governance codes</td>
<td>Shaoul et al., 2012</td>
</tr>
<tr>
<td>Organisation of Economic Co-operation for Development (OECD)’s principles of corporate governance</td>
<td>Brennan and Solomon 2008</td>
</tr>
<tr>
<td>The board of directors</td>
<td>Brennan and Solomon 2008; Buhr, 2002; Collier, 2008; Gupta et al.; 2008; Uddin and Choudhury, 2008</td>
</tr>
<tr>
<td>Capital market requirements and regulations</td>
<td>Brennan and Solomon 2008</td>
</tr>
<tr>
<td>Profit, shareholders, shareholder value</td>
<td>Granlund, 2002; Jack, 2005; Lawrence et al., 1997; Liu and Stark, 2009; Roberts and Scapens, 1985</td>
</tr>
<tr>
<td>Company Law</td>
<td>Shaoul et al., 2008a and 2010</td>
</tr>
<tr>
<td>Organisation form: PPP, PFI, LIFT, Group structure</td>
<td>Aldred, 2006; Asenova and Beck, 2010; Clarke et al., 2003; Mahmood, 2004; Hellowell and Pollock, 2010; Hodges and Mellett, 1999; Shaoul et al., 2007b; 2008a and 2008b; 2010; Whitfield, 2011</td>
</tr>
<tr>
<td>NPM prescriptions</td>
<td>Ferlie et al., 1996; Hood, 1991; 1995; Lynn, 1998; Power, 1997; Ramo and Skalen, 2006; and Skalen, 2004)</td>
</tr>
<tr>
<td>Government directives and regulations, National Audit Office and Audit Commission</td>
<td>Baker, 2003; Broadbent et al., 2003 and Edwards and Shaoul, 2003</td>
</tr>
<tr>
<td>Capital structure: debt versus equity</td>
<td>Clarke et al., 2003; Mahmood, 2004</td>
</tr>
<tr>
<td>Market position eg monopoly position</td>
<td>Froud et al., 2000 and 2006</td>
</tr>
</tbody>
</table>

Secondly, human agents are key persons who are involved in the day to day accountability and governance practices, and others who are involved in the financial reporting and governance standard and codes setting. Table 4.4 shows a summary of key human agents and a relevant selected list of references. While some refer to human agents as actor(s), in this study, human agent(s) is the preferred term.
Thirdly, human agency involves the power, interest, transformative skills, capabilities, interpretations and political choices of the human agents. Table 4.5 presents a relevant selected list of references on human agency.

**Table 4.4 Examples of human agent(s)**

<table>
<thead>
<tr>
<th>Key human agents</th>
<th>Relevant selected references</th>
</tr>
</thead>
</table>

**Table 4.5 Examples of human agency**

<table>
<thead>
<tr>
<th>Key human agency</th>
<th>Relevant selected references</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power of human agents</td>
<td>Broadbent and Laughlin, 2002; Hodges and Mellett, 2002; Macve, 1999; Rutherford, 2003</td>
</tr>
<tr>
<td>Interest of human agents</td>
<td>Broadbent and Laughlin, 2002; Hodges and Mellett, 2002; Rutherford, 2003</td>
</tr>
<tr>
<td>Transformative skills, capabilities and interpretations of human agents</td>
<td>Delaney, 1994; Ezzamel <em>et al.</em>, 2007; Hines, 1988; 1989</td>
</tr>
</tbody>
</table>

There are three broader categories of financial accountability and governance research approaches, namely determinism, soft determinism and social constructionism. The focus of each approach is different as the importance placed on the two central variables differs. The next three sections examine structures and human agency further within these three broader categories of research.

### 4.3 Determinism in Financial Accountability and Governance Research

This section examines studies that place a great deal of primacy on structures. The point here is that this is only part of the story and that there is a more complex story because of the on-going influence and continuous interventions of human agency.

The determinist view separates structures and human agency *a priori*. It then studies how structures and human agency, as separate entities, interact to produce an outcome.
Research based on this approach focuses on structures and their hoped for or expected outcomes/practices. This view projects a typical relation as presented in Figure 4.2.

**Figure 4.2: Determinism approach to financial accountability and governance research**

<table>
<thead>
<tr>
<th>Structures</th>
<th>Human agency</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image_url" alt="Diagram" /></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As Figure 4.2 shows, structures and outcomes are assumed a-contextual, black boxed and thus, taken for granted as means to an end, have sacred dominance over human agency in everyday accountability and governance practices (Deegan and Unerman, 2006; Godfrey *et al.*, 2006; Riahi-Belkaoui, 2004; Ryan *et al.*, 2002; Watts and Zimmerman, 1986). Structures and expected outcomes are the focuses and have been shaded to indicate that. Human agency is not shaded as it is not the focus.

One consequence is that structures are taken to be independent of the social or organisational arrangements within which they are developed, deployed and used. Another consequence is that structures are taken to be stable and settled and can be passed from hand to hand and used as is, by anyone, anytime and anywhere. Structures are thus attributed some technical and deterministic prominence and human agency is taken for granted. People in organisations are therefore reduced to, in the words of Sewell (1992:2), ‘*cleverly programmed automatons*’, thus suggesting a premise that outcomes can be measured and predicted. Here, there is no difference between structures and outcomes. In this way, all events in the future, the dependent variable, here conceived as outcomes and practices, are unalterable, predetermined as are all events in the past, the independent variable conceived here as the structures. The arrow indicates that structures exert unidirectional, causal influences over human agency and the financial accountability and governance outcomes.

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24 Outcomes here are taken to mean practices and impact and may be used interchangeably but would mean the same thing for the purposes of this study.
Most of the studies that have focused on structures are in the market based research community where economic and finance theories have been dominant. Such studies have traditionally attempted to deal with conflicts of interests that are associated with the agency problem between management and shareholder. Some of the early studies, for example, Eisenhardt (1989) and Jensen and Meckling (1976) have drawn on theories of agency, property rights and finance to develop a structure in the form of a model of behaviour with a technical character that is expected to solve such conflicts unproblematically. Human agency is thus held to have zero effect.

Some studies explore the role of structures, and for most part the hoped for or expected impact of structures. In this regard, some have used the application of a particular structure, as Cairns et al. (2011) have done, to test comparability of outcomes. Here, for example, mandatory application of structures such as IFRS and IAS is claimed to achieve comparability and stability in practice relative to optional application of IFRS and IAS. Other studies, for example that by Liu and Stark (2009), employ a time series regression approach to establish a linear relationship between particular accountability and governance structures and outcomes, where structures are held as independent variables and outcomes are held as dependent variables. Further, as observed in Godfrey et al. (2006), in this type of research, researchers have sought the role of structures in producing information about a firm’s activities and the impact on share prices, across large datasets.

For example Gupta et al. (2008) have shown, the quality of newly acquired outside directorships is positively related to past and contemporaneous performance at the executive’s own firm. This study adopts a shareholder-centric perspective of accountability and governance by focusing on a deterministic relationship between outside director appointments and financial performance.

In summary, these role studies have highlighted the causal power of structures, that which the structures presumably affect or change as the structures are designed, implemented, deployed and used. Here, too much primacy and focus is placed on structures in financial accountability and governance leading to determinism.

Yet other studies have explored the scope of structures. Here, while some researchers would focus on the presence or absence of the structures and by extension, the best
practices in financial accountability and governance and assess the impact of them, others would investigate or assess the adequacy of such structures. For example, some might focus on how the use of private sector style board of directors based governance arrangements affects openness in management. Others might focus on how the use of private sector style reporting, using balance sheet and income statement, affects disclosure and reporting quality as in for example Cohen et al. (2004) and Shaoul et al. (2008a). Also, others might seek to find empirical relations between some governance structures such as the constitution of board of directors on one hand, and accountability outcomes such as managerial behaviour towards the generation of shareholder value (eg. Dahya et al., 2002; Larcker et al., 2007).

Similar studies have explored whether structures such as the Combined Code on Corporate Governance (2006) in the UK and the Sarbanes-Oxley Act (2002) in the US and others such as the OECD (2004) principles of corporate governance are adequate to protect and enhance the wealth of shareholders, and by extension, the finance capital (eg. Brennan and Solomon, 2008; Stein, 2008).

In summary, the scope studies have largely assumed that structures have some technical efficacy, convey characters and images of good practice. Structures are then regarded as good corporate governance, standardised packages, and are expected to do what their designers intend them to do. Therefore, financial accountability and governance in these terms and how they work are seen to be largely technical and standardised issues and are therefore expected to provide definable and specifiable capabilities which are unchanging.

In the public sector and the PPP financial accountability and governance research community, there are some studies that have focused on structures, a few of which have focused on structures as the primary independent variables. An example is Sola and Prior (2001) who focus on structures as capable of generating value and enhancing performance in the public sector. They conceptualise accountability and governance structures as a package with specifiable features such as efficiency, effectiveness and efficacy that are hypothesised to produce some expected outcomes.

However, the majority of these studies have focused on the dependent variable: that which is affected, altered, or transformed by the structures. Such studies suggest that structures
are put in place that results in outcomes that for example, privilege the private sector and finance providers over other interests. For example, the legitimating rhetoric of NPM (a structure) in the public sector and in the new forms of PPP has focused on efficient use of finite resources so studies such as Broadbent and Laughlin (2005); Clathworthy et al. (2000); Ezzamel and Wilmott (1993); Ferlie et al. (1996); Hellowell and Pollock (2010); Hood (1991; 1995); Power (1997); Ramo and Skalen (2006); Skalen (2004); Sola and Prior (2001) have sought to study whether this is achieved in practice. The broader conclusion from such studies is that emphasis is being shifted from rules, procedures and human rights based public services to finance based public services. Accordingly, it is very common these days to find public services ranked and appraised on the basis of their ability to deliver profit and return on their assets and capital and manage liabilities (Drummond et al., 2005; Froud et al., 1998; Jones and Mellett, 2007).

As noted by Shaoul (2005:442):

‘The emphasis on appraisal and ‘value for money’ is part of a wider government initiative to introduce formal techniques into the UK public sector decision-making process to allocate resources on a more rational basis, free from political interference or managerial preference, which in turn is assumed to lead to a more socially efficient allocation of resources’.

It is being suggested that by replacing the older bureaucratic rule and procedure-based, less efficient, less effective and less economic ways of public accountability with new financial value enabled ways, positive and desirable outcomes are derived. However, these restrict the public interest to the character of a shareholder (Shaoul, 2005; Froud and Shaoul, 2001).

Another issue that has been very topical is the off balance sheet treatment of transactions, inadequate disclosure (transparency) and compliance. UK PFI schemes were originally mostly treated as off balance sheet transactions by the private sector partner and/or the public sector partner (House of Lords Committee on Economic Affairs, 2010). Some structures have been cited as enabling the off balance sheet treatment of PFIs. In one respect, it has been found that the existence of public sector partner agencies as discrete accounting entities (structure), combined with the construction of PFI as contracts of service (another structure), enabled PFI financial obligations not to be recorded in the
financial statements of such agencies (Hodges and Mellet, 1999). In another respect, it has been found that the use of SPVs (another structure) made it possible to hide potential profits of PPP transactions (Edwards et al., 2004; Shaoul et al., 2008a).

It is worth noting that off balance sheet financing and treatment of assets and liabilities is not peculiar to PPPs. It is common in the private sector. In both the private and public sectors such treatments have involved some amount of human agency. In the corporate sector, and in cases of heavily debt financed merger and acquisition activities, directors use SPVs to secure debt to finance such behaviour (Baker, 2003; Clarke et al., 2003). In relation to PPPs the role human agency in such behaviour is evident (see Shaoul et al., 2008a, 2010).

There have been issues of inadequate disclosure (transparency) in both the public and private participating partners. This comes in at least three forms.

- The first two of such forms flow from two structures: the form of PFI and Company Law (Shaoul et al., 2008a, 2010). These studies show that as a consequence of the complexities associated with the organisational form of PFI transactions, both private and public sector participants are able to avoid disclosing, in particular, contingent liabilities. They also show that the use of private sector financial reporting mechanisms in PFI schemes has meant that PFI transactions are accounted for only to the extent of meeting the minimum requirements of Companies Act. This has thus meant that at best, minimum information is what is usually disclosed, a practice that has been cited as inadequate for public accountability in its general sense in democratic society (Shaoul et al., 2008a).

- The third way in which there is inadequate disclosure is due the requirement for commercial confidentiality in PPP transactions. As a result of confidentiality rules, another structure, it has been difficult to access reliable accounting information for appropriate assessment of the PFI (eg. Acerete et al., 2010; Jacobs, 2009 and Stambrook, 2005) and LIFT schemes (Aldred, 2006). However, as confidentiality rules are designed through human agency and intended to avoid disclosure of
certain information, research that focuses on structures only presents an incomplete picture.

There have been issues of compliance and external scrutiny in PPP transactions. In the UK, there have been calls for increased involvement of external oversight agencies such as the NAO and the Audit Commission (Broadbent et al., 2003; Edwards and Shaoul, 2003). A complementary oversight mechanism which has become increasingly common is the corporate governance mechanism (Parker, 2007). However, as some have suggested, at the core of the external scrutiny work is the flow of information:

‘The core of accountability with its emphasis on external scrutiny should not be forgotten, and that the information needs of external scrutineers are particularly important’ (Shaoul et al., 2012:224).

Therefore, while the setting up of external scrutiny arrangements is important, it is equally important to address their information needs, if there is to be effective oversight. Accordingly, some questions have been raised:

‘Does information flow across the boundaries of organisations adequately for the purposes of public accountability and corporate governance? Is there evidence that information can and does flow between organisations? If so, what are the practices that facilitate information flow across organisational boundaries? If not, how can information flows be improved?’ (Shaoul et al., 2012:225).

A new variation of such oversight structures is a partnership working between private and public sector directors, that is having a board that consists of directors from both the private and public sectors to monitor PPP transactions (Rassell, 2008; Shaoul et al., 2011). However, as to whether this has helped the flow of information remains very under researched. In the discussion chapter, how the LIFT set up has enabled and/or constrained information flow for the purposes of public accountability and corporate governance will be explored in detail with possible suggestions for improvement.

Some studies find that structures meant to deliver financial value were unreliable and inadequate (cf. Baker, 2003; Broadbent et al., 2003; Broadbent and Laughlin, 2003; Edwards and Shaoul, 2003; English and Guthrie, 2003; Heald, 2003; Newberry and Pallot, 2003, Shaoul 2003). Some of these studies have recommended the need to search for
independent human agents to exercise scrutiny and oversight roles and more and stronger structures. For example, both Edwards and Shaoul (2003) and Broadbent et al. (2003) suggest the need for oversight responsibility from the NAO and Audit Commission over PPPs once operational and Baker (2003), fearing that PPPs could be UK’s Enron, calls for proper regulations. By these suggestions, they are calling for more and stronger structures with independent human agents as means to give and demand reasons for conduct. This means that not only are they effectively maintaining the technical efficacy of more and stronger structures but also, more independent human agents as the role of human agency is inevitable.

The next section discusses soft determinism in research.

4.4 Soft determinism in Financial Accountability and Governance Research

Closely related to the studies that focus on structures are those studies that allow for the role and scope of structures to be moderated by some contextual variables. These are described as technically contextual in Broadbent and Guthrie (1992; 2008), whilst Orlikowski (1992:400) describes them as soft determinism.

As Figure 4.3, shows two different sets of structures produce two different outcomes. As the focus is on structures and hoped for outcomes, they are shaded. Human agency is not shaded as it is not the focus.

Figure 4.3: Technically contextual view

<table>
<thead>
<tr>
<th>Structures</th>
<th>Human agency</th>
<th>Outcomes</th>
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For example, Jones (2000) shows that both the UK’s Office for National Statistics (ONS) and the Treasury’s Budget Statement conduct different types of national accounting. While both institutions are talking about national wealth (outcomes), the meanings they respectively attribute to national wealth are different and slippery. The ONS prepares national income accounting whereas the Treasury prepares national economic accounting for the Treasury. However, both measure the financial wealth of the UK in a set of financial statements: national accounts and budget reports for the ONS and the Treasury respectively. These sets of accounts have different conceptual frameworks, different accounting policies which are implemented by these different institutions of government in different ways. As Jones notes, while the accounting policies for the national accounts are embodied in ONS, those for government budgeting are not codified but appear periodically in the budget documents themselves. Also, while statistics have most direct impact on the national accounts policies of the ONS, economics has the most direct impact on the budget report of the Treasury. Therefore, suggesting that the meaning of financial accountability and governance practices is context specific. A different set of structures are required for each context in order to produce the relevant meanings.

Unlike the view which focuses on structures and thus gives relatively little importance to human agency presented in Figure 4.2 instead imposing universal structures, the soft determinism view focuses on structures in their specific context. It accordingly proposes what could be referred to as a contingency model of financial accountability and governance structures. Simply put, it focuses on context-specific structures and their expected outcomes. This is perhaps more relevant, as it has been argued that any generic approach to financial accountability and governance, in other words, any imposition of universal structures, may create boundary, disclosure and measurement uncertainties (Broadbent and Guthrie, 2008).

Therefore, the imposition of, for example, private sector style reporting and corporate governance and the private sector interpretation of transparency on the public sector and the new forms of PPP may be problematic. Shaoul et al. (2008a; 2010) find that the use of private sector financial accountability and governance, instead of the traditional rule and procedure based practices, has tended not to be transparent enough. Very few people will disagree that PPPs are of public interest and therefore, the interpretation of transparency as these studies have done should be viewed in the public sector context.
Others, following on the soft determinism line of argument, have warned against the agenda of imposing a single set of global accounting standards. A contemporary example is Walker (2010) who has argued that if we opt for a technical view that ignores national and cultural environment, we run the risk of severely restricting the different forms of practices that can develop, precisely, the different forms of capitalism that can develop.

4.5 Social Constructionism in Financial Accountability and Governance Research

4.5.1 Introduction

Research that focuses on the role of human agency is broadly categorized as social constructionism. Social constructionism of financial accountability and governance has been immensely influenced by approaches adapted from contemporary sociologists such as Giddens, Bourdieu, Foucault, Habermas, Latour and others.

Such a view is essentially interested in the interaction of financial accountability and governance structures, agency and context (eg. Broadbent and Guthrie, 1992; 2008; Cole and Cooper, 2006). These studies insist that the ‘black-box’ (borrowing from Orlikowski, 2010:131) of financial accountability and governance must be opened. Accordingly, such studies effectively unpack the socio-historical processes through which accounting standards, techniques and governance structures were designed and shaped by the multiple and often competing interests, interpretations of salient social groups, among others. There are variations of such studies which are examined in the subsequent subsections to present the different guises of social construction of accounting.

4.5.2 A Two-way Interaction Social Construction

The two-way interaction social construction view holds that there is a two way interaction between financial accountability and governance structures and human agency. Here, as Figure 4.4 shows, neither structure nor human agency is black boxed. The grey shades in the figure below suggest that neither structures nor human agency are privileged and outcomes are not entirely objective, they include some amount of subjectivity.
But the partly darkened box (structures) and partly darkened oval (human agency) suggest that on either side of the interaction, there are some powerful human agents, at both the design phases and processes and at the user end. The unbroken arrows suggest a two-way process between structures and human agency which leads to outcomes that come from human agency.

Structures and practices are socially constructed in a two-way interaction. Therefore, research that has relied on this has examined how for example, social interest, power and disciplinary conflicts shape the initial development of accounting standards and the production of accountability and governance through shaping its cultural meaning and the social interactions among relevant social groups (eg. Broadbent and Laughlin, 2002; Hodges and Mellett, 2002; Rutherford, 2003). So for example, researchers studying PFI accounting might follow Rutherford (2003) by examining how FRS 5 was socially constructed by powerful agents. On the basis of that understanding, they would interpret the application of FRS 5 in practice as serving a dominant group’s interest.

Here, structures are understood to be dependent variables, contingent on other forces in and outside the organization, most notably powerful human actors (Broadbent and Laughlin, 2002; Hodges and Mellett, 2002; Rutherford, 2003). This approach does not accept that financial accountability and governance structures are given or immutable. It focuses attention instead on the manner in which structures are influenced in both ways. First, by the context and strategies of financial accountability and governance structures decision makers, for example, IASB, their interest and power, and the accounting profession as a body. Second, by the users, including for example, the Big Four accounting firms, accountants, managers and directors. Therefore, and again, unlike both the determinism and soft determinism views, this body of knowledge focuses on structures in terms of the context of their initial construction as well as the context of their interpretations. Therefore, studies following this line of thinking would for example focus
on how particular financial accountability and governance structures are physically constructed through the social interactions and political choices of human agents.

A similar premise that runs through the two-way interaction is that organisation forms and their accountability and governance practices purposely reflect accountability and governance structures that seek to benefit certain dominant interests. Therefore, there have been, for example, calls to re-examine and to question the restructuring of organisations such as PFI and privatisation around financial accountability and governance logics. Examples of such studies are those that have focused more specifically on how dominant interests are reflected in the structures and practice of accountability include (Acerete et al., 2010; Agyenim-Boateng, 2004; Hellowell and Pollock, 2010; Shaoul, 2005; Shaoul et al., 2008b). Jones and Mellett (2007:116) refer to this as a result of ‘the role of outside agency’ which is that accounting and governance procedures and practices have become facilitated by the powers of external funders, as banks financing public sector projects exert some agency in the way such projects are accounted for and monitored.

The most common conclusions from such studies are that outcomes such as profit, non-disclosure of contingent liability, off balance sheet treatment of transactions, can be manipulated by an interaction of structures and human agency. While human agency is important, including the accounting profession as advisors, it is equally important to note that as a result, the accounting profession increases its financial returns and power (Arnold and McCartney, 2008; Sikka, 2008; Shaoul et al., 2007a;).

Therefore, as Catchpowle and Cooper (1999:712) posit:

‘Accounting cannot be independent of its social conditions and that under capitalism, the moving force of accounting lies in political economy – in class contradictions and that accounting is made, in part, by adjustments to the economic needs of the ruling class’.

Under this view, some draw on labour process theory under which accounting is assumed as a vehicle to extract returns from the surplus value of labour to the benefit of finance capital (Bryer, 1994; 1995; 1999; 2006a; 2006b; Burawoy, 1996; Hopper et al., 1987; Niemark, 1992; O’Doherty and Willmott, 2001).
Some studies have emphasised the metaphorical and rhetorical character of accountability. Craig and Amernic (2004, 2006 and 2008) and Amernic and Craig (2009) examine the interaction between financial accounting structures and human agency and highlight the metaphorical and rhetorical nature of the structures. They observe that:

‘Accounting does not axiomatically provide an untainted and objective measure of some underlying financial truth, but should be regarded, as demonstrated here, as part of an arsenal of rhetoric to achieve political ends’ (Craig and Amernic, 2006:93).

They argue that accounting structures are rhetorical because *inter alia*, they do not reveal an underlying truth but a language of business that is used to produce images and discourses in our society. And they are metaphorical because the images about both the conceptual framework of financial reporting and the things accounted for, conjure up some impressions of profit and shareholder value seeking which privileges the shareholder. The structures thus involve the metaphor of accomplishment which may appear subtle but has an ideological end of domination.

Also, some studies have revealed that accounting may be involved in a counterproductive and punitive agenda. One important theme that is emerging from some recent studies that have focused on the interaction between structures and human agency is the issue that accounting has been implicated in a criminal case that involves the right to work in a safe environment and human rights in general (Chetty, 2011; Cooper *et al*., 2011; Frankental, 2011; Gallhofer *et al*., 2011; McPhail and McKernan 2011). It is therefore important to be mindful of the possibilities of potential human rights implications in the accounting and governance practices in the health sector, where human rights are traditionally regarded as the basis of its legitimacy.

Thus far, the two-way social construction has carefully outlined the manner in which structures are devised and deployed to further the political and economic interests of powerful actors. Two further questions are addressed in turn.

- *The question of stability in practice*

Khadoroo (2005) examines how designed structures including accounting standards achieve stabilisation through processes of isomorphism: regulation, negotiation, persuasion
and community consensus and thus, becomes institutionalised. But Khadoroo (2005) in portraying financial accountability and governance practices as institutionalised, suggests that financial accountability and governance structures become stabilised after design and therefore, for example, accounting standards and corporate governance arrangements reach closure after their initial design. This point of view suggests that how an accounting standard for example is deployed and appropriated depends on social and economic forces beyond managerial intent. The selectivity with which the notion of human agency is applied: where only designers of structures (e.g. IASB, Cadbury Committee, OECD) have the authority and means to shape the financial accountability and governance structures should be concerning. This takes us to the second question.

• The question of human agency and voluntarism in research.

There are studies that have placed a great deal of primacy on human agency over technical structures. Here, structures are portrayed as so weak that they are deprived of causal powers such that structures dissolve into interpretations of human agency. In this case human agency becomes strong and can flexibly interpret structures and consequently practices avoid being reified. By this, it tends to downplay specific technical properties and thus, focuses essentially on human interpretations and social actions. In this case, structures become the end product of the interpretations of human agency and therefore as Archer (1982:455) notes:

‘Human agency became sovereign whilst social structure was reduced to supine plasticity because of its constructed nature’.

Thus, by focusing on human agency in research, structures may become plastic, flexible and as constructed by the human agent. By placing a great deal of primacy on human agency, the objective features of accountability and governance may be different from the interpretations of these human agents. As Ezzamel et al. (2007:169) observe:

‘Regulatory scripts of accountability differ in some respects from the accountability that organisational actors offer as rationales for their actions and priorities’.
As Figure 4.5 shows, the shaded oval indicates that a great deal of primacy is given to human agency and its interpretive flexibility. As structures and outcomes/practices are not the focus, they are not shaded.

Figure: 4.5: Primacy on human agency in research

While it is always the case that human agency creates structures in the real world, here, the difference is the relative attention and importance paid to human agency in research (cf. Delaney, 1994).

4.6 Limitations of the Three Approaches

4.6.1 General Limitations

This section explains what can be regarded, in a more general sense, as limitations across all the three approaches. The point is that a great deal of focus on any one variable is problematical.

‘What accounting can do and what it is perceived to do, are not necessarily the same things’ (Broadbent and Guthrie, 2008:130).

There is a shift from the principles of accounting and by extension, governance, to the practices of accounting and governance. Therefore, any view that focuses on structures and makes them appear as if they are technically precise, neutral and objective and any view that focuses on human agency may be restricted and thus be telling an incomplete story.

The researcher who focuses on structures is restricted for the following reasons. Structures do not get implemented by one set of people in the ways that a different set of people, that is the designers, intended. Therefore, as Orlikowski (2010:133), writing on technology, observes, the structure focused view, loses the capability to posit and theorise about the
context –specific, subtle, situated and micro-level practices and interaction that produce particular organisational outcomes.

Human agency may well change how structures are interpreted and operated (Hines, 1988; 1989; and Macve, 1999). As Hines (1988:157) points out:

‘Social reality exists tangibly, and accounting practices communicate that reality, but in so doing such practices play a part in creating, shaping and changing, that is, in constructing reality’.

Also, the researcher may not be able to reveal human rights implications that financial accountability and governance may involve. This is because, by taking financial accountability and governance as given, it becomes impossible to reveal the counterproductive and punitive agenda that both financial accountability and governance may be involved.

In relation to studies that place a great deal of primacy on human agency, the researcher may be restricted in the following ways. Yates (1997), also writing on technology, observes that when research places a great deal of primacy on human agency it does not explore the mutual influences of social practices and social structures. Others are of the view that such studies lack the capability to posit and theorise the technical effects on practices (Orlikowski, 2010). This, as argued by Yang (2011) encounters a difficulty because human agents have different opinions on what accountable and governance actions are desirable and that accountability and governance structures are often used to promote a specific goal or objective. In particular, this approach has been criticised for minimising the deterministic force entailed in structures and privileging situated human agency (Rutherford, 2010). Some have contended that answers provided by such studies are not robust enough to be regarded as ‘good knowledge and discipline’ (cf. Zimmerman, 2001).

Also studies that restrict human agency to initial design of structures, makes it impossible for the researcher to account for the diverse ways in which structures are appropriated and utilized through an on-going and open ended processes of reinterpretation, modifications across time and space.
Further, as the three broader categories of research separate and privilege structures and/or human agents, the researcher loses sight of their mutual constitution and recursive interactions (Giddens, 1993) and possible changes in practice (Sewell, 1992).

Again, as suggested in some studies outside of accounting and governance, when social practices and society go through changes via recursive interactions, social scientists should turn to concepts such as enactment, emergence, learning, contradictions and improvisation to help explain the new ways of social practices (Orlikowski, 2000; 2007; 2010). These concepts suggest that social practices can be characterised by features such as temporariness, shared, situated, emergent, portable, heterogeneous, stabilizing, generative as well as fragile. As these are features of scaffolding, social practice can be seen as scaffolded, involving both technically-mediated human agency and; socially-enacted technical performance (Lajoie, 2005) and Sharin et al., 2004). These can escape any study that places a great deal of primacy on either structures or human agency.

4.6.2 Specific Limitations of the Three Approaches to Research on LIFT

The purpose here is to show specifically how the limitations would impact on research into LIFT.

In terms of scope (absence or presence and impact study) a structure focused researcher would focus on the presence or absence of some prescriptions such as the application of the accounting standards and the board of directors. For example, such studies might focus on how the board of directors that is composed of both public and private representatives affects openness in the management of LIFT schemes. And/or how the profit and loss accounts and balance sheet affect disclosure.

In terms of role (impact only study), a structure focused LIFT researcher would generally be interested in some common features and principles of financial accountability and governance structures as prescribed in some regulations, accounting standards, corporate governance codes, OECD’s principles of corporate governance, Companies Act, Shareholder agreement, among others as very objective and neutral and therefore, good practices. Here, the structures would generally be expected to be religiously followed by human agents. As the interests, power and transformative as well as the skill and
interpretive capabilities of human agents are not the focus of such a researcher, the structures may appear as means to an end. Any departure from structures may be regarded as not following best practice or standard performance. Financial accountability and governance in LIFT may be simply and uncritically held to be the presence of LIFT board, profit and loss accounts and balance sheet.

It can therefore become impossible to theorise and explain the role of the historical context of, for example, neo-liberalism and its connection to the LIFT scheme. The entanglement of the social context, in particular, the financialisation notion that is regarded in this study as a context that underlies and entangles LIFT and its practices, may not be adequately theorized and explained. The role of human agency: experts’ involvement, the role of the accounting profession and many more may escape the focus of the research. The socio-technical antecedents and consequences of the structures, for example, politics of the design of the LIFT scheme and managers’ ability to make certain choices, for example, selecting a business model such as LIFT that appears to allow flexibility and inconsistency are not considered.

Also, by taking financial accountability and governance as given the researcher may not be able to reveal any contribution that LIFT schemes may be making to the growing displacement of health care as a human right by shareholder value and returns to finance capital.

In relation to studies that place a great deal of primacy on human agency, the researcher may be restricted in the following ways. Firstly, as it does not explore the mutual influences of social practices and social structures, it would be impossible to posit and theorise the technical effects of, for example, the LIFT structures and the accounting standards on practices.

Secondly, if this study restricts human agency to initial design of structures, it would be impossible to account for the diverse ways in which for example, the LIFT structures and accounting standards are appropriated and utilized through an ongoing and open ended processes of reinterpretation, modifications across time and different LIFT schemes.
Thirdly, in the PPP accounting literature, some have acknowledged the constitutive character of accounting which is that PPPs drive accounting and accounting drives PPP (Broadbent and Guthrie, 2008; Jones and Mellett, 2007). Again, there is an acknowledgement in the literature that there is unresolved tension between the nature of external financial reports and the conceptual basis informing their construction (Broadbent and Guthrie, 2008). Therefore, by focusing on either structures or human agency as separate and independent entities, it becomes very difficult to reveal the constitutive aspects of LIFT accounting and also difficult to resolve the tension between the LIFT structures and accounting and governance practices.

These limitations and possibilities caution against unbridled focus on structures or human agency in financial accountability and governance research and suggest some roles for socio-technical factors. Therefore, this thesis asserts that the existing literature is only part of the story and that there is a more complex story because of the ongoing influence, continuous intervention of human agency. Therefore, a social constructionist-based research that focuses on recursive interaction between structures and human agency and able to theorise enactment, emergence, learning, change, contradictions and improvisation is ideal for conducting research into financial accountability and governance.

The next section considers the form that the recursive interaction might take and proposes Giddens’ structuration theory that will be explored in the next chapter.

4.8 The Recursive Interaction between Structures and Human Agency

This section presents a general idea of what recursive interaction between structures and human agency would look like in financial accountability and governance practices. It is suggested that in everyday financial accountability and governance practices structures and human agency are mutually constituted. In this way, structures and agency in financial accountability and governance practices like the preparation of profit and loss accounts and the balance sheets, as well as directors’ oversight activities, would not be viewed as separate and independent entities but instead, would have what Giddens, in his numerous writings, has described as the duality of structures (Giddens, 1979; 1984 and 1993). Here, it is being suggested that the structures that human agents such as accountants, managers
and directors would draw on as media, in the production and reproduction of, for example, profit and loss accounts and balance sheets and their oversight activities are themselves the outcome of these agents’ action. This would contrast studies that have focused either on structures as if they are simply means or on human agency as if it is simply an end and as if there are no recursive interactions between structures and human agency. The recursive interaction between structures and human agency therefore suggests that means and ends in financial accountability and governance interact recursively.

This creates two messages. Firstly, policy makers who call for prescription in structures, for example, the NPM adoption of private sector style oversight arrangements (Board of directors), and the adoption of IFRS and IAS conceptual framework in the public sector, are making wrong calls. The reasons are they overstate the power of structures and overlook human agency. While such a call may be overly simplistic, it may privilege structures through which control is taken away from humans by rendering them in an apparently passive role. In that case, it would be expected, for example, that the profit and loss accounts and balance sheets presentation and treatment of similar transactions in the two LIFT schemes would be the same and be consistent across time. That would amount to glossing over significant ways in which the accountants’ and directors’ respective accounting and oversight activities recursively interact with such structures.

Secondly, NPM’s call for governance by experts (cf. Harvey, 2005), may be overstating the power of these experts (human agents). Again, while such a call may be overly simplistic, as before, it may also privilege experts, putting the locus of control largely in their hands thereby consigning structures to a relatively passive role. In that case, it would be expected, for example, that the profit and loss accounts and balance sheets presentation and treatment of similar transactions by experts in the two LIFT schemes would be the same and be consistent across time. That would amount to glossing over significant ways in which structures recursively interact with experts.

These structure and human agency focused calls would respectively only simplify complex activities like accountability and governance as either (1) mechanical, neutral, objective and comparable or (2) as simply interpretations of human agents. And to the extent that, if the neglect of the interaction between structures and human agency continues, our understanding of accountability and governance in especially, the public sector which is
reliently pursuing the agenda of introducing more mechanics and experts from the private sector and the consequences will remain necessarily restricted.

4.8 Summary and Discussions

This chapter began by conceptualizing accountability and governance in general, its scope and role. The evidence shows that the concepts of accountability and governance are complex as they can have different meanings to different people across time and space. Both concepts are sometimes used as synonyms. Therefore, instead of treating them as simple concepts, the chapter finds them to be very complex phenomena. Cognisant of the complexity, rather than provide a specific definition of accountability, the chapter discussed the scope of accountability to find out what does and does not count as accountability. The chapter identifies that accountability consists of virtue and social relation. The chapter then identified financial accountability and governance which, for the purposes of this study are respectively about the use of profit and loss accounts and the balance sheet, and board of directors as subsets of accountability.

It also discussed the content, composition and the central variables to understand what needs to be regarded as the focus of analysis of financial accountability and governance. The chapter identified that structures and human agency have been central variables in financial accountability and governance research and examined how they have informed our collective understanding of accountability and governance in general, and financial accountability and governance in the public sector in particular. The evidence is that there is an established view of a dichotomous relationship between structures and agency where a great deal of primacy is placed on structures on one hand, or a great deal of primacy is placed on human agency on the other hand.

In these two positions the chapter finds that at one end structures serve as means (determinist view) whilst at the other, structures are taken as ends (social constructionist view). However, when accountability and governance are taken for granted as means in research, the interaction that may exist between structures and human in everyday financial accountability and governance practices may be ignored. It was also found that when accountability and governance are treated as ends, then what exactly is deemed desirable, virtuous, or righteous would depend on a specific community’s consensual or dominant
understanding, cultural norm, or ideology including the interpretations of human agency. Despite the useful insight that the views summarized above provide, the concern in this chapter is that such views have not deeply engaged the duality of structures in the everyday financial accountability and governance practices. Therefore, the chapter recommends the structuration theory which transcends the human agency focused and the structure focused views and presents human agency and structures as mutually constitutive. More precisely, the chapter recommends Giddens’ structuration theory (Giddens (1979; 1984; 1993) which is presented in the next chapter.
Chapter Five: The Theoretical Approach: Drawing on Giddens’ Structuration Theory

5.1 Introduction

5.1.1 Aims and Motivations

The previous chapter identified a lack of research that focuses on both structures and human agency. This chapter presents some aspects of Giddens’ structuration theory to explain and reveal the complexities that may be associated with the recursive interaction between financial accountability and governance structures and human agents.

However, it is important to note the following. While Giddens sees his theory as something to be used in concrete scientific work as it touches at many points on the conduct of social research, he warns that it is not a research programme and therefore, its concepts and elements should be regarded as ‘sensitising devices’, to be used in a selective way in thinking about research questions or interpreting findings (Giddens, 1984:326). But as Jones and Dugdale (2001) observe, while this might be a problem because it hardly gives researchers any direct guidance on the conduct of research, it can also be a solution because it makes it possible for researchers, as in this study, to adapt it as seems appropriate to the purpose and content of their study. Therefore, the theory links to the aims of this study which investigate: major financial accountability and governance issues in the LIFT scheme and how they can be better explained using the social-institutional context of the LIFT scheme. Accordingly, the ideas described in this chapter are drawn on in the next two empirical chapters.

Also, as noted in the introductory chapter, the use of Giddens’ structuration theory is timely as it makes an important contribution to the financial accountability and governance literature, an area where application of this theory has been lacking. In particular, by using structuration theory and also demonstrating the plausibility of structuration theory to explain financial accountability and governance practices, this study complements the established dichotomous perspective and thus extends the literature.
5.1.2 Outline

The remainder of this chapter is organised in seven further sections. Section 5.2 examines Giddens’ notion of social practices. Section 5.3 examines his notions of duality of structures and the structuration process. Section 5.4 describes human agency in the duality of structures. Sections 5.5 and 5.6 respectively examine his ideas of (1) continuity and (2) change in social practices. Section 5.7 outlines some strengths of Giddens’ theory. Section 5.8 explains the limitations of Giddens’ theory and the chapter concludes with a summary and implications in section 5.9.

5.2 Financial Accountability and Governance as Social Practices

Giddens proposes that the focus of social research should be practices ordered across time and space. He insists that such practices are social practices as they involve actual activities of human agents. Therefore to study financial accountability and governance as social practices the focus would be on the actual financial reporting and oversight activities of human agents. In order to study financial accountability and governance practices, the active and skilful doings of human agents in the production and reproduction of financial accountability and governance practices are very important. As Calhoun et al. (2002:229) put it:

‘The production and reproduction of society thus has to be treated as a skilled performance on the parts of its members, not as merely a mechanical series of processes’.

Also involved in the production and reproduction of the social practices are sets of rules and resources which are described as structures. Giddens defines structure in the glossary to the Constitution of Society:

‘Structure: Rules and resources, recursively implicated in the reproduction of social systems. Structure exists only as memory traces, the organic basis of human knowledgableness, and as instantiated in action’ (Giddens, 1984:377).

Giddens’ description of structures as consisting of rules and resources which exist as memory traces has been a source of concern as he elsewhere terms them as having virtual

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25 Human agents in the context of financial accountability and governance context include: accountants, managers, and directors. Collectively, they are referred to as actors. Detailed description of their involvement in the production and reproduction of practices is presented in 5.2.4.
existence, and not existing concretely in time and space (Giddens, 1984:17). As a result, operationalizing them in this study has been very difficult. It is therefore important that the meaning of structures is clarified for the purposes of this study. In order to do this, rules and resources are explored in detail.

As Giddens has offered, rules do not only come in prescriptive form but in the various conventions, recipes, scenario, principles of actions, habits of speech and gestures. While Giddens did not provide any specific examples of rules, he regards rules as generalisable procedures applied in the enactment and reproduction of social practices and draws a comparison that:

‘Formulated rules: those that are given verbal expressions as canons of law, bureaucratic rules, rules of game and so on are codified interpretations of rules rather than rules as such. They should be taken not as exemplifying rules in general but as specific types of formulated rule, which by virtue of their overt formulation, take on various specific qualities’ (Giddens, 1984:21).

Therefore, rules as structures merely provide a potential means of recording, presenting, classifying, communicating, interpreting, explaining, justifying and organising daily social practices. Accordingly, it is essential to understand the (skilful) ways these structures are drawn on and used in the daily lives of human agents and as part of on-going social practices.

In adopting this description of rules as structures, this study suggests that financial accountability and governance structures exist as ideas, templates and principles for human actions. And it is only when human agents draw on these templates and put them into practice that evidence for structures may be established. Therefore, accounting structures, as Lawrence et al. (1997) for example have observed, contain potential for use but whether the potential is actualised depends on the actual day-to-day practices of the human agents. As templates, how rules as structures are used cannot be decided in advance and therefore, is not deterministic. Otherwise, practices could be easily predicted. As noted in the literature, rules as structures can only be determined, case by case, which thus suggests there is no fixed limit to the possible interpretations and applications and, that there can be multiplicity of structures (Whittington, 1992; 2011; Sewell, 1992:17). So for example, an
organisation form such as LIFT, may be interpreted and used in different ways in different years and across schemes.

Resources as structures are the media whereby the transformative capacity of human agents is employed as a source of power in the routine course of social interaction (Giddens, 1979:92). There are two types of resources, namely non-human resources (henceforth allocative resources) involving capabilities which facilitate command over objects, and human resources (henceforth authoritative resources) involving capabilities which facilitate command over persons (Giddens, 1979:100). Sewell (1992:9) explains these two types of resources in the following ways. Allocative resources are essentially objects, inanimate, natural or manufactured that can be used to enhance or maintain power. Debt capital in the LIFT joint venture company is an allocative resource because it facilitates banks’ control over debt funding flow, increasing and decreasing debt. Authoritative resources may include physical strength, dexterity, knowledge and emotional commitments that can be used to enhance or maintain power, including knowledge of the means of gaining, retaining, controlling and propagating either human or nonhuman resources. As the equity capital\(^{26}\) in the LIFT joint venture company gives capabilities to shareholders to constitute the board of directors and command control over the board, coordinating decision making and monitoring makes it authoritative resource.

As allocative resources are material and actual objects relevant examples are debt capital, which exist in space (LIFT projects) and time (LIFT projects’ life span). It is only in a particular time and space, and in particular quantities that such material objects can serve as resources. Finance capital providers such as banks can draw on their control over the flow of debt capital to enhance and maintain their power over the LIFT scheme for example.

Also, authoritative resources such as knowledge and emotional commitments of, for example, accountants, managers and directors and the equity capital are actual. As Sewell (1992) argues, they exist in time-space, they are observable characteristics of real people who and things which exist in particular times, for example, at the end of year, and congregate in a particular place, for example, at a board of directors’ meeting. And it is

\(^{26}\) Note that equity capital is different from the equity capital shareholding in a sense that the latter is a legitimation structure which is explored shortly below.
their actualisation in people’s minds, bodies and actions that make them resources. This suggests that it is not the disembodied concept of accountants, managers and directors, for example, that gives them power, but the knowledge and emotional commitments.

It is noted that rules and resources are interconnected and have recursive interactions (Giddens, 1984; Sewell, 1992). The accountants’ authoritative resources to prepare financial reports and managers’ and shareholders’ as well as directors’ authoritative resources to govern which may involve monitoring and co-ordination of other people and their activities, derives from rules operating at at least two rather different levels. First, accountants’ training has given them mastery of a wide range of explicit and implicit techniques of knowledge and self-control that enable them to perform satisfactorily as accountants. And second, they have been raised to the status of preparers of accounts and protectors of shareholders’ assets by responsibilities imposed on them by for example, the Companies Acts and shareholder agreements. By applying these, they mobilise the fiduciary power that makes them capable of placing primacy on shareholder value. The resources gained by accountants, managers and directors from the organisations they manage and report about will be determined by the conventions of company management, the demands of Company Acts, the set of obligations owed to the shareholders and the financial accounting and governance techniques employed.

While allocative resources for example, debt capital in the LIFT scheme are not reducible to rules, their activation as resources, the determination of their value and social power, is dependent on the cultural schemas that inform their social use. The cultural schema that may inform banks to increase the flow of debt capital into the LIFT scheme may involve the primacy of finance capital, primacy of profit making, the shareholding character of the LIFT scheme and company law.

The structures of financial accountability and governance in this study will involve some specific aspects of rules as structures and some actual resources that may be drawn on to provide social practice, continuity in practice and also change in practice over time and as they relate to the LIFT scheme.

The next section outlines Giddens’ notion of the duality of structures.
5.3 Duality of Structures and the Structuration Process

This section outlines the duality perspective and then conceptualises financial accountability and governance as interwoven social structures consisting of structures of signification, legitimation, and domination. It then details the human agency in the duality of structures and provides bases for theorizing both accountability and governance continuity and change in the three subsequent sections.

Giddens’ theoretical approach centres on overcoming the dichotomies between structures and human agency. This is to be achieved through his notion of duality of structure, namely that structure is both medium and outcome of the reproduction of social practices (Giddens, 1984). That is, structure shapes people’s practices but it is also people’s practices that constitute and reproduce structure. This thus presents an image of human agency and structure as presupposing each other (Sewell, 1992). Social practices and human agency thus necessarily have some structurally informed properties. Giddens (1984:377) defines structural properties as the ‘structured features of social practices, especially institutionalised features, stretching across time and space’. In the case studies an example will be interpretation of LIFT as joint venture or subsidiary, and/or interpretation of exemption provided in accounting standards over time and across schemes.

Structures are constituted by people who know what they are doing and how to do it, that is by people who are putting into practice their necessarily structured knowledge. So Giddens refers to these people as knowledgeable and enabled human agents (Giddens, 1984). Therefore, the human agents can put their structurally informed capabilities to work in inventive ways. They can thus transform the very structures that gave them capabilities to act. For this reason, the interaction between structures and human agency involves an ‘image of society as a continuous flow of practices which potentially changes or maintains a potentially malleable social world’ (Archer, 1982:457). This interaction is what Giddens calls structuration. As it is continuous and dynamic, structuration is a process, rather than a product.

For Giddens, structures take three forms: signification, legitimation and domination. These are explained as follows. Firstly, structures of signification denote organisational rules of
what is meaningful. They inform and define interaction and direct the manner in which
problems are interpreted and work is conducted (Giddens, 1984; Orlikowski, 1992;
Roberts and Scapens, 1985). As the LIFT scheme entails equity capital shareholdings joint
venture entities (LIFTCos) with profit motives, it is meaningful to make profit, therefore
profit making contributes to what is meaningful.

Secondly, structures of legitimation represent organisational rules that sanction a particular
mode of behaviour and propagate a set of norms about what is and what is not acceptable
social practice (Giddens, 1984; Orlikowski, 1992; Roberts and Scapens, 1985). In
mandating that all LIFTCos have equity capital shareholding, the UK government is
sending a message that equity capital shareholding is the only legitimate way of setting up
the LIFTCos and that they should behave in terms of reporting and governance as such in
order to be acceptable.

Thirdly, structures of domination are facilitated by organisational resources which are
deployed in order to control, monitor and coordinate organisational activities (Giddens,
1984). These resources are the authoritative and allocative resources discussed in section
5.2.

Giddens proposes that human agents interact with structures via what he calls modalities.
The modalities take three forms: interpretive schemas, norms and facilities. Firstly,
interpretive schemas are the stock of knowledge that human agents draw on in order to
make sense. They are reinforced or changed through interaction, as the organisational rules
are confirmed or challenged through their deployment by the human agents. Secondly,
norms are the organisational rules that sanction what is considered as legitimate or
appropriate practices. Thirdly, facilities are the means and resources by which power is
exercised, for example, shareholders exercise their power of constituting the board of
director by their equity capital.

The details of the duality of structures including a conceptualisation of accountability and
governance as interwoven social structures consisting of structures of signification,
legitimation, and domination are now discussed.
Figure 5.1 suggests that human agents draw on structures through some modalities in the production and reproduction of social practices. However, it is also suggested that the modalities are themselves the outcome of the human agents’ action. Put in other words, the structures such as signification, legitimation and domination are constituted by human action (the presence of structuring properties is evident in action, practices and therefore, are outcomes of action). Also, the structures by serving as templates (rules) and resources become mediums for human actions. Consequently, the medium and outcome are recursively constituted, by extension suggesting that human agents and structures do not constitute two independent sets of entities but instead represent two sides of the same coin (Giddens, 1979).

Therefore, in following Giddens’ notion of duality of structures, structures and agency in financial accountability and governance are not conceptualised as separate and independent entities but as essentially, different sides of the same reality brought together through practices. In this way, the theory adds to the critique that the a-historical, a-contextual and the technical-efficiency focus of mainstream research has necessarily limited ability to help us to account for and understand how and why financial accountability and governance
structures are mobilised in and transformed through the everyday organisational life of human agents.

Subsequent paragraphs explain the details about the elements and the workings of the framework but before providing this explanation a clarification needs to be made. Although the framework is only separable for analysis, in practice, the elements: signification, legitimation, domination- their modalities and human agency are entwined, interdependent, linked and interwoven (as indicated by the vertical and horizontal double-headed arrows). Following this clarification, the elements and workings of the framework presented in Figure 5.1 can now be explained.

- **Signification, interpretive schemes and communication**

For Giddens, the structures of signification are about how purpose and meaning are attributed to everyday practices. Accordingly, they provide general interpretive schemes and a stock of knowledge that actors draw on to give meaning to everyday activity. As Lawrence *et al.* (1997) and others have noted, they help actors make sense of what has happened, assess actions and plan for the future, and they are necessary for communication and understanding. In an accounting context, typical signification structures might include the definition of assets and mixed measurement (transaction or events based) system of accounting as presented in the ASB *Statements of Principle* (1996; 1999), which provides accounting regulation for recognition and measurement that accounting actors draw on selectively in their social action and interaction (Tollington, 2006).

But in the LIFT scheme there is the potential for conflict between the financial signification structures and the healthcare signification structures. Key signification structures include profit and returns to finance capital as they relate to how purpose and meaning are to be attributed to the LIFT scheme, which contains a shareholding set up. However, as this can be seen to be a tool contributing to the growing appropriation of financial returns to finance capital, there is the potential for increasing conflict. Especially as a signification structure in a health care organisation such as a ‘caring institution’ may clash with profit (Lawrence *et al.*, 1997). This is because the interpretive schemes and stock of knowledge that could be drawn on as the basis to calculate the profit and returns, which may include finance-based accounting policies, ringfencing and bullet payments,
may contradict the needs basis on which care should be delivered. Here, the modality through which the signification structure is drawn could essentially be for the purposes of satisfying external financial stakeholders such as providers of finance capital and not essentially as relating to internal stakeholders such as patients. These modalities would be drawn on for communicating finance-based reporting: balance sheets and profit and loss accounts and may privilege accountants, managers and directors over doctors and nurses (eg. Lawrence et al., 1997). Giddens (1984) calls this structural contradiction which he describes as a situation where structural properties are opposed to each other in a way that each depends on the other and yet negatively affects the other with a consequence which may be undesirable.

- **Legitimation, norms and sanction**

However, legitimation structures involve the morality of actions and seek, *inter alia*, answers to questions such as: is it right or wrong? Is it important or trivial? Is it necessary or unnecessary? What should happen and what should not happen? It thus, as Buhr (2002) notes, represents the moral values put into play by a corporation to produce the moral order that guides corporate activities. This moral order is produced *via* societal norms, values and standards which human agents draw on to justify and sanction conducts. Therefore, as Macintosh and Scapens (1990:460) describe:

‘*It comprises the shared sets of values and ideals about what is to be regarded as virtue and what is to be regarded as vice; what is to count as important and what is to be trivialized; what ought to happen and what ought not to happen. As such, the legitimation structure institutionalizes the reciprocal rights and obligations of the social actors. The legitimation structure is mediated through norms and moral codes which sanction particular behaviours*.’

What qualifies as legitimate may differ across organisation contexts. For example, in a traditional public delivery of health care, the morality, and thus the legitimation, would be that it is a human right and that no one should be denied access. Here, the moral code may require that resources in terms of funding should be available to all and according to need and nothing else. In such a situation, human agents draw on these moral grounds to justify and sanction conducts. Under the LIFT scheme, primacy of finance capital and shareholder
would become moral codes that are drawn on by human agents to justify and sanction their decision on LPA.

Therefore, as the LIFT scheme adds to the situation where public services are increasingly migrating to this new form of moral order, the LIFT scheme can be seen to be adding to the increasing conflicts of legitimacy in the public sector in general and the health services in particular. As for example, in the health sector, traditional structures such as health care as a fundamental human right may contradict the economic and finance-based structures such as for example, health care and related services as an economic commodity (see for example, Lawrence et al., 1997). Giddens refers to such a situation as structural contradiction (Giddens, 1984).

In the accounting literature and as demonstrated in Tollington (2006), examples of legitimation structures would include intellectual legitimacy where the norms would essentially involve moral obligations to rationalise accounting practice against a conceptual schema such as the IAS and IFRS conceptual framework. In this case, and as Tollington observes, where accounting practices are different from the behavioural norms established by such a conceptual framework, then such actions would be subject to a moral judgement and sanctions from an independent audit opinion. As Tollington (2006) has noted, where the foundations that afford such legitimacy are multiple for example, legal, economic and political policy choices, there may be conflict and the legitimacy outcomes may be weaker for lack of consensus.

As Giddens and others who have followed him (eg Coad and Herbert, 2009; Roberts and Scapens, 1985) have noted, norms are situated in context which means that in conceiving norms, the social setting is very important. Therefore, in this study, and as part of the theoretical context, the recent developments in the public sector in UK and especially, in the health sector, offer a context for the study of financial accountability and governance practices. As chapter two has discussed, the financialisation aspects that are particularly relevant as part of the context of this study are: the primacy of shareholders and finance

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27 Recall that the LPA is the Lease Plus Agreement, which regulates the occupation of the LIFT building facilities particularly, the rights and responsibilities under the lease.
capital, the dominance of returns from tax shield\textsuperscript{28}, group tax relief and residual value (capital gains) and their use as modes of governance (Epstein and Power, 2002; Krippner, 2005; Reberioux, 2007). By this position, the study presents the financial accountability and governance practices of the case organisations in the light of those aspects of financialisation.

- **Domination, facilities and power**

Giddens, in the articulation of the duality of structures, proposes that any co-ordination of social practices across time and space necessarily involve a definite combination of domination structures. However, whilst he identifies structures of signification and legitimation with rules, he identifies domination structures with allocative and authoritative resources (Giddens, 1984). Specifically, domination structures are facilitated by: first, allocative resources that are generated by banks from their control over the flow of debt capital investments, and second, by authoritative resources such as the dexterity, knowledge of human agents and the accounting resource and the equity capital.

For Giddens, the asymmetries of distribution of resources and thus, control of resources may produce power through which domination may occur. He suggests that domination and power cannot be thought of only in these terms but have to be recognised as inherent in social association which is human action. That is, he suggests that power is necessary for human agents in their day-to-day social interaction as it is inherent in and facilitates their ability to act or change something (Giddens, 1984; Lawrence \textit{et al}., 1997). As also Calhoun \textit{et al}.

\textsuperscript{28} Reduction in income taxes that results from the tax-deductibility of interest payments. This can be on the high side in highly geared organisations.
and not enough to talk about power without meaning and norm. Following on this and as Yang (2011) has recently argued, means that practices such as financial accounts preparation and oversight activities are involved in a complex web of meaning, norms and power.

Giddens’ suggestion that the three dimensions of structures are interdependent and interwoven would thus mean that financialisation would interweave and interconnect with the other elements of the framework. In this way, this study argues that the notion of financialisation is strongly implicated in, and reliant on, the theory of structuration and the structures of significance, legitimation and domination.

This study takes the view that there is a missing dimension to the theoretical debate on financialisation, namely structuration in financialisation. Drawing on the structuration theory, financialisation can be organised along the duality of structure and particularly, its signification, legitimation and domination structures, to provide not an all-embracing theoretical framework, but rather, ideas and analytical tools that may be useful for explaining the financial accountability and governance practices and the contradictions they may entail, particularly in public sector accountability.

As human agency is very important in the processes that the duality of structures is involved in, the human agency is now examined in detail.

5.4 Human Agency in the Duality of Structures

In Giddens’ duality of structures framework, human agency is identified as very necessary for the social interaction with the three dimensions of structures described above. How human agency may be mobilised in social practices is presented in Figure 5.2 and subsequently explored in detail.

Human agency is the action taken by human agents, such as accountants, managers and directors in space or a social setting like, the LIFT scheme and across time. Human agency takes place as a continuous flow of interaction with the social structures of signification, legitimation and domination (Macintosh and Scapens, 1990). Therefore, social practices,
(such as the construction of balance sheets, profit and loss accounts, what to include and or exclude from these reports, approval and or disapproval of these reports, the form the reports should take and many others) are continuously created by the activities of board of the directors, managers and accountants by the very means whereby they express themselves as actors as suggested in Figure 5.2.

**Figure 5.2: Human agency in duality of structures**

![Diagram of Human agency in duality of structures](Adapted from Macintosh and Scapens, 1990:459).

For Giddens, there are knowledgeable human agents who are both enabled and constrained by structures. They are knowledgeable because they know what they are doing or do and how to do it and they act by putting into practice their ‘necessarily structured knowledge’ (Sewell, 1992:4). The accountants’, managers’, and directors’ necessarily structured knowledge would involve their thoughts, intentions and motives as constituted by the cultures and the social institutions in which they find themselves. This is what Giddens describes as purposeful agency. Giddens suggests that agents may routinely maintain a continuing theoretical understanding of the reasons for their actions and behaviour. In this
case, some stability and consistency in practice may exist. Agents are not just social dupes who unreflexively and automatically respond to the structures. As Giddens (1984) has argued, if agents are asked about their conducts, they would usually be able to rationalise the basis of their conducts even if they are not aware of some of the consequences. As suggested by Figure 5.2, agents reflexively monitor and provide rationales for the character of the ongoing flow of their social actions.

These reflexive and monitoring practices, according to Giddens, are carried out at either or both of the discursive and practical level of consciousness as shown in Figure 5.2. At the discursive level of consciousness, agents mobilise their skills to speak, write and reflect on the rules and resources involved in their social interaction (Coad and Herbert, 2009; Conrad, 2005; Giddens, 1984; Macintosh and Scapens, 1990). However, at the practical level of consciousness, agents reflexively monitor their own and others’ conduct and draw on implicit stocks of knowledge to inform them about how to act and how to interpret events and the action of others. For Giddens, in this case, actors apply practical principles of conduct which they are not able to formulate discursively (Giddens, 1979). With these two levels of consciousness in mind, it could be argued that agents in their day-to-day financial accountability and governance practices may discuss reasons for certain actions. For example, explanations are given in notes to accounts. However, for other actions they may just do them without any explicit discussions. Giddens adds that though many of the consequences of the agents’ conducts are intended and thus known, there are others that may be unintended and therefore unknown.

In the agents and structure interactions, it is suggested by Giddens and others who follow him (including Ahrens and Chapman, 2002; Busco et al., 2006; Coad and Herbert, 2009; Conrad, 2005; Granlund, 2001; 2002; Hassan, 2005; Jack, 2005; Jayasinghe and Thomas, 2009; Lawrence et al., 1997; Macintosh and Scapens, 1990; Roberts and Scapens, 1985) that agents may sometimes preserve practices and thus achieve some amount of stability and consistency in practice. However, and as these studies have found in agreement with Giddens, human agents may sometimes intervene in ways that presents them with the possibilities of acting in such a manner that structures are sometimes modified, or radically altered.
Therefore the structuration process is very dynamic. While stability and consistency in practice suggest that social practices such as financial accountability and governance practices may achieve continuity, dynamism in practice suggests that practices may be altered or changed and that there is room for inconsistency and innovation in practices. There are several sources of such continuity, changes, innovation and dynamism in the structuration process. Some relevant sources for practice continuity on one hand and, change, dynamism, inconsistency, innovation on the other hand, are discussed in turn in the following two sections.

5.5 Practice Continuity in the Structuration Process

For Giddens practices may be preserved, and thus become stable because of agents’ desire to meet deeply rooted psychological needs for ontological security which he describes as:

‘Confidence or trust that the natural and social worlds are as they appear to be, including the basic existential parameters of self and social identity’ (Giddens, 1984:375).

Some studies have demonstrated that the notion of ontological security has some empirical relevance as social actions and interactions have been seen as an important means of meeting deeply rooted psychological needs for ontological security (Busco et al., 2006; Conrad, 2005; Granlund, 2001; Jayasinghe and Thomas, 2009; Macintosh and Scapens, 1990). In this set of studies, agents are found to be comfortable with existing routines and have accordingly resisted and avoided changes in their routine practices for the fear that any changes may bring certain consequences that may negatively affect their existing comfortable power relations. Others such as Ahrens and Chapman (2002) and Jack (2005) find that the taken-for-grantedness ways by which actors conduct their day to day social actions, interaction and practices, which lead to what some have described as ‘unquestioned reproduction’ (Englund et al., 2011:501) have led to continuity in social practices. Also, it is suggested as in Lawrence et al. (1997) and Hassan (2005) that continuity in social practices may be due to structural clashes where a calculated policy attempt for practice change may be opposed, because existing structures and introduced structures may be perceived to be contradictory. Despite opposition, the change will come anyway as in the case of Lawrence et al. (1997).
Some cases have suggested that continuity in practices may be due to a lack of innovative capabilities of agents in some specific social setting. Here, despite Giddens’ suggestion that it is the unconscious, unintended consequence of actions that forms the basis for such lack of innovative capabilities (Giddens, 1984), Jack (2005) finds that it is because agents lack knowledge. In other words, they are bounded in their knowledgeability, which is why they are not able to alter existing routines, or depart from old routines and form new routines. Also, some studies, such as Jayasinghe and Thomas (2009), by drawing on Giddens’ domination structures, suggest some agents may be able to push for continuity in social practices, dependant on their distance from superiors, access to local political patronage and technical knowledge.

5.6 Practice Change in Structuration Process

Giddens also suggests that social practices may change, sometimes slowly and sometimes very suddenly and radically. He accordingly suggests a number of ways of understanding and analysing how social change and thus, social practices change occurs. Giddens’ ideas of how social change occurs which are relevant to this study are now outlined.

Firstly, he suggests that changes occur because of the inherent indeterminacy of social reproduction. This type of change comes about as a slow drift from routine practices and incrementally as part of daily social actions and interaction with social structures (see for example Lawrence et al., 1997 and Ahrens and Chapman, 2002). From this, it could be argued that agents in their day-to-day interactions with structures may, without intending it, change practices.

Secondly, change may result from structural contradictions. Structural contradictions may come from a crisis situation, such as reduced government funding and financial crisis, the need to make profit in the public sector or changes in ownership, such as the new forms of PPPs. Public services in the UK and the rest of the world have seen significant and wider use of private sources of funding. Also, and as part of this new funding arrangements, new forms of PPPs and joint ventures have emerged in the delivery of public projects and services. In these situations, conditions governing system reproduction change and accordingly, old conventions and codes, habitual routines and conventions of social
practices may be abandoned. And in their stead, new ones are introduced, and therefore result in changes in practice (Busco et al., 2006; Coad and Herbert, 2009; Conrad, 2005; Lawrence et al., 1997; Granlund, 2001; 2002). However, Giddens suggests that how far such a change comes about is essentially dependant on the degree to which critical agents emerge from the social setting (the space of practice) and their ability to rally allocative and authoritative resources to produce or thwart change. In the UK for example, government involvement of the accounting profession in the design and implementation of NPM (Shaoul et al., 2007a) may therefore rally resources to effect change in practices and introduce a new accounting logic in the public sector. In chapter six the relevance of both allocative and authoritative resources is explored in detail whilst chapter seven discusses the implications.

Thirdly, Giddens suggests that social change may occur as a result of agents’ reflexive monitoring and understanding of their actions and interactions with the structures. The agents who initiate such a change might have reflected on existing practices and when not satisfied with the conditions governing such practices would then call for a change in practices. As Lawrence et al. (1997) note:

‘People enter into a running dialogue with an organization whose practices they oppose, shaping and reshaping the outlooks of both sides. There may be an internal movement pitted against the conventional and established organizational routines. A dialogue begins which acts on both the establishment and those mobilizing for change. The outcome may be a smoothly flowing process of change or an abrupt and radical departure from convention. It depends on the way in which the reflexive processes shape and re-shape the outlooks of both sides’.

Fourthly, as Lawrence et al. (1997:668) suggest, a change in social action may occur because of ‘change in the differential access to or control of resources’. Institutional change, for example, new forms of partnerships, such as LIFT and its reliance on a private sector style board of directorship and on private finance capital, may change the ways in which human agents define and access their rights and obligations, and accordingly change for example, financial accountability and governance practices. In such a situation, instead of defining and accessing resources on the basis of public accountability principles such as need, resources are defined and access based on their economic returns.
At this stage, it is important to summarise the strengths of Giddens structuration theory relevant to this thesis.

**5.7 Strengths of Giddens’ Theory**

By paying attention to the recursive interaction between structures and human agents it is possible, as suggested by for example, Whittington (2011) and Orlikowski (1992; 2000, 2007; 2010), to uncover several insights relevant to this study. Firstly, it becomes possible to pay attention to the embryonic range of financial accountability and governance structures. Secondly, it becomes possible to reveal the improvisational struggles in everyday accountability and governance practices. Thirdly, it becomes possible to reveal the entanglements in practice (ontologically inseparable structures and agency). Fourthly, shared practices, the social essence, discourse (discursive and tacit practice), transdisciplinarity of practice, learning, dynamism and inconsistencies in financial accountability and governance practices can be revealed.

These cannot be dealt with by the application of determinism or voluntarism, as determinism and voluntarism would respectively disregard the complexities associated with these issues and would give no considered treatment or theorising of the range of structures through which practices are performed (Yang, 2011). In either case, it would not be possible to explore the interaction between determinism and voluntarism. Rather, for this study, structuration theory (Giddens, 1979; 1984; 1993), which re-examines the current notions of structures and agency and their role in organisation, offers an appropriate framework. More precisely, it makes it possible to engage more with the synchronised interaction of structures and human agency in practice. In Giddens’ structuration theory, structure and agency are interconnected, entwined, interdependent and interwoven, whilst social practices are skilled performances of human agents which are not necessarily stable, but may change across time and space.
5.8 Limitations of Giddens’ Theory

There are also various limitations to the theory that was drawn on for the study. Llewellyn (2003) offers five levels of what count as theory. These are presented in Table 5.1, detailing the relevant empirical issues and their respective claims.

Llewellyn has noted that structures also feature at the interactional and organizational levels of analysis and metaphors and differentiation also permeate the understanding of human experience across the levels of theory. As Giddens’ structuration theory is used in this study as a sensitizing device, it is important to acknowledge that it is not able to cover all the five levels of theorization suggested as outlined in Table 5.1. Therefore, the study may not be able to contribute as Llewellyn (2003) has demanded, what can be described as a fuller, more transparent, and more self-conscious understanding of what theory is in this study.

Table 5.1: Levels of theorisation

<table>
<thead>
<tr>
<th>Levels</th>
<th>Theory</th>
<th>Empirical issues</th>
<th>Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Metaphor</td>
<td>Micro reasons, actions and social production</td>
<td>Ground experience</td>
</tr>
<tr>
<td>Two</td>
<td>Differentiation</td>
<td>Micro social processes</td>
<td>Cut up experience</td>
</tr>
<tr>
<td>Three</td>
<td>Concepts</td>
<td>Meso agency, how individuals make things happen through resources</td>
<td>Explicate practices</td>
</tr>
<tr>
<td>Four</td>
<td>Theorising setting</td>
<td>The social organization of relationship between individuals, organizations and the environments</td>
<td>Explains relationships between social phenomena in context</td>
</tr>
<tr>
<td>Five</td>
<td>Theorising structures</td>
<td>Class, gender, power relations and distribution of resources</td>
<td>Explains universal, a-historical and large scale dimensions of social life</td>
</tr>
</tbody>
</table>

(Source: Llewellyn, 2003:687-689)

5.9 Summary of Chapter

This chapter is part of a wider aim of unveiling the complexities associated with the recursive interaction between structures and human agency in a social practice, specifically in this study, financial accountability and governance practices. It identifies Giddens’
structuration theory as a lens by which any complexities associated with the recursive interaction between structures and human agency can be revealed. Giddens has warned that the whole conceptual apparatus that makes up his theory may be too much for one study and that the various ideas in his theory should be regarded as sensitising devices. Mindful of this warning and the research aim, the chapter has selected those of his key ideas that are relevant.

Firstly, the chapter explored Giddens’ notion of social practices. This is presented as involving (1) actual activities (2) human agents and (3) rules and resources.

Secondly, the chapter explored the recursive interaction between structures and human agency. The structures are analysed as involving interplays of signification (meanings), legitimation (norms) and domination (power). These structures are presented as constituted by human action, in other words, they are outcomes of human agency (it is their presence in action that confirms their existence). At the same time, these structures by serving as templates (rules) and actual resources, become media for human actions. Therefore, suggesting that the medium and outcome are recursively constituted and by extension suggesting that human agents and structures do not constitute two independent sets of entities but instead represent two sides of the same reality.

Thirdly, the chapter explored the notions of knowledgeable and powerful actors, reflexive monitoring of actions by human agents, discursive and tacit practices, intended and unintended actions and consequences.

In addition, the chapter has explored some major sources of continuity, learning, innovation, dynamism, inconsistency and change in practice. Regarding continuity in practice, notions such as ontological security, lack of innovative capabilities and resource asymmetry and the dialectic of control have been explored. However, on the issue of change, dynamism, innovation, learning and inconsistency in practice, discussions have involved change generated by the inherent indeterminacy of system reproduction, contradictions between social systems and appropriation of reflexive monitoring and understanding and change in the differential access to or control of resources.
The next chapter analyses the empirical data with financial accountability and governance being presented as social practices. These involve the actual financial reporting and accounting practices and oversight activities that involve recursive interaction between human agent and structures that consist of rules and resources. Therefore, the available data is categorised into three inter-related structures and linked through some modalities to the human agency. Mindful of Giddens’ idea of structural contradictions, evidence of such contradictions will be identified. Also, mindful of the possibility of both stability and dynamism in social practices, evidence of such and relevant reasons are sought.
Chapter Six: Case Studies

6.1 Introduction

6.1.1 Aim and Purpose

This is the main empirical chapter, its purpose being to describe and analyse the empirical evidence of structures of meaning, purpose, legitimacy, power dynamics and human agency in financial accountability and governance practices in two cases. These two cases are two of the Local Improvement Finance Trust (LIFT) schemes in the UK’s NHS. In each case there is a LIFT company (LIFTCo) with shareholding partners from both public and private sector organisations. Therefore, the LIFT companies in the two cases involve several partners in the public as well as the private sectors, and necessarily, their corporate structures involve a complex web of relationships. More precisely, the LIFT Companies are involved in elongated organisation structures, and caught up in a number of related party transactions.

Due to these complexities, there are two additional research aims to be addressed in this chapter. The first is to explore how the complex web of relationships may or may not increase the complexity of financial reporting. The second is to explore how the complex web of relationships may or may not complicate the process of governance. These are further addressed through a number of subsidiary questions such as follows.

- To what extent do the corporate structures of the LIFT scheme complicate financial accountability and governance including external scrutiny?
- To what extent does the LIFT scheme enhance partnership working between the public and private sector partners?

Given the above purposes, the chapter examines not only the LIFT companies, but also their complex corporate structures. Therefore, financial reports of the LIFT companies and the participating partners from the public and private sectors, interview data and official documents from the UK government and relevant agencies of the UK government are all examined.

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29 Public Private Joint Venture Partnership in the UK health sector
Note however that the chapter is mindful of Giddens’ (1984) multiple levels of knowledge, and so presents the empirical data at the first of two levels. This involves telling the story as told by the data, that is, at face value. Here, therefore, the respondents, managers, accountants, directors, by their doings and descriptions of their mundane work life present a first order theory. The second level is addressed in chapter 7.

6.1.2 Regulatory Framework
LIFT operates within the UK regulatory framework of law and accounting. In terms of law, the UK Companies Act 2006 lays down regulations regarding the roles of directors of limited liability companies, such as the LIFTCo. It covers regulations for reporting including conditions for consolidation of limited liability companies. Public enterprise organisations such as the PCTs come under government regulations for governance and reporting.

Within the UK, limited companies must comply with the national accounting standards (FRSs), whilst listed companies must comply with international accounting standards (IASs and IFRSs). These require and, provide permission, exemptions and choice for reporting including conditions for consolidations. Public sector entities comply with IFRS which have been adapted for the public sector. These in part provide a context for financial reporting and governance practices that are examined in this chapter.

In examining the financial accounting practices in the two case study groups, both FRS and IAS are set out. The point is that both are available interpretive schemas but the private sector companies as non-listed entities comply with FRSs. This contrasts with the public sector which is obligated by government to choose IFRS.

6.1.3 Outline
The rest of this chapter presents the financial accountability and governance practices of two LIFT schemes to date. It is organised in the following ways. The key features of the first case are presented in section 6.2. This is followed by an examination of governance in the first case in section 6.3. Then section 6.4 examines accounting and financial reporting in the first case. In addition, the chapter explores respectively in sections 6.5, 6.6 and 6.7, the key features of the second case, and the governance and consolidation policies
following the same approach as in the first case. In section 6.8, the chapter finishes with a summary of key messages and implications for financial accountability and governance practices and theory. These are explored further in the next discussion and interpretation chapter in fulfillment of Giddens’ second level analysis.

The names used for the organisations involved and interview respondents are pseudonyms. This is in order not to breach the University of Manchester’s ethics requirements and a confidentiality agreement with the case organisations and interview respondents. Accordingly, the respondents are generally described in the case as either directors, accountants, managers or advisors. Collectively, they are referred to as human agents. Also, this section uses pseudonyms for the organisations involved in the case and the two cases are anonymised.

6.2 The JV1 Case

6.2.1 Introduction

This section presents some key features of the first case. It examines both numerical and narrative data using a combination of themes and discourses that reflects the literature, the research questions and/or the empirical data, also bearing in mind the socio-technical approach of the study. It shows that JV1 scheme has a complex organization form. Further, the section presents that in practice, while the LIFT scheme involves companies limited by shares, it is substantially a debt driven model. It reveals that equity share capital and debt capital respectively provide authoritative and allocative resources, sources of power for equity shareholders and debt providers respectively that are increasingly relevant in the mundane financial reporting and oversight activities of directors in both schemes. It does these by presenting a detailed analysis of the LIFT scheme, firstly in detail in relation to the JV1 case and then the relevant points in relation to the JV2 case.

6.2.2 The Corporate Structure of the JV1 Scheme

In this subsection, the JV1 scheme is presented as involving complex and elongated organising elements. This is important in order to reveal a number of issues in relation to the organization of the LIFT scheme which is more complex than indicated by official reports.
First of all, it is important to refer to some general issues. Such issues are necessary
contrasts to LIFT in practice. Some have a simplified view of the LIFT scheme in general.
For example, it has been described by PriceWaterhouseCoopers (PWC), one of the Big
Four accounting firms which have been involved with PPP, as ‘a group-together basis’
form of joint venture arrangements (PWC, 2005:39). This view is presented by the UK
Treasury as well (Treasury, 2003). Not only that, some commissioned reports present the
LIFT structure as if it ends with the LIFT Company (see NAO, 2005; PAC, 2006). Such
views present the LIFT scheme with very little or no emphasis on the layers of structures
and complexities that the LIFT scheme involves in practice. A typical graphical
presentation of the LIFT structure that has been widely cited in some government reports
and some studies is as provided by the National Audit Office (NAO) and reproduced in
Figure 6.1 below.

Figure 6.1: The National Audit Office’s LIFT structure

(Source: NAO 2005:1)
The NAO presents the LIFT organising structure as if it is a grouping together of smaller Primary Care Trust (PCT) building projects. Also, it is as if oversight is provided by the public sector. Furthermore, it shows as if the LIFTCo would not have subsidiaries.

There are some aspects of the NAO’s LIFT structure that are defunct and need to be noted. Partnership UK (PUK) was a PPP, with the private sector, largely banks, owing 51% of its equity capital shareholding and the remaining 49% owned by the public sector, the UK Treasury and Scottish government. PUK and the Department of Health (DoH) equally and jointly owned the Partnerships for Health (PfH). However, PfH has since 2007 been an independent company, wholly owned by the DoH and has since been known as CHP. CHP is therefore, a public sector organisation. Therefore, PUK and PfH are no longer part of the LIFT structure. The NAO diagram would now look as in Figure 6.2.

Figure 6.2: The current form of the NAO LIFT diagram

![Diagram showing current form of NAO LIFT structure]

But this is considerably more complex in practice. Figure 6.3 is an illustration of the corporate structure of the JV1 scheme in practice which significantly contrasts with the simple NAO presentation of LIFT in Figures 6.1 and 6.2.

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30 Remember this is Community Health Partnership
Figure 6.3: The JV1 scheme’s corporate structure

PoPP1 Ltd

PP1 Ltd

LIFT 1

LIFT 2

Strategic Partnering Board

Department of Health

CHP

2-PCTs

JV1 Ltd LIFTCo

Fundco 1 SPV

Fundco 2 SPV

Fundco 3 SPV

Fundco 4 SPV

Fundco 5 SPV

Fundco 6 SPV

Holdco 1 SPV

The bank

Subcontractors

Tenancy/Lease Plus Agreement; Oversight by public sector; Ownership and control; Strategic Partnership Agreement

Debt, interest and bullet payments; Subcontracting

(Source: Annual reports and accounts (various years)).
Details of Figure 6.3 are now explored as part of the background to the story of the financial accountability and governance practices in the JV1 scheme.

JV1 Ltd is the LIFTCo in the JV1 scheme. It was set up in 2003 in a relatively rural community in England. As Figure 6.3 shows, the equity capital shareholding in this LIFT Company is owned by a private sector partner, PP1 Ltd (a pseudonym) and, public sector partners: CHP and, two PCTs, described collectively as the 2-PCTs. Consistent with the plan that launched the LIFT scheme, PP1 Ltd, CHP and the 2-PCTs respectively share in the equity capital shareholding in the ratio of 60%, 20% and 20%. PP1 Ltd is a relatively local construction and facilities management company which is involved in two other LIFT schemes shown as LIFT 1 and 2 on Figure 6.3. Of particular relevance is that PP1 Ltd is viewed by some directors at interviews as having an ethos that is similar to the public sector. It was divulged in an interview that while PP1 runs its business at a profit, a good proportion of that is given to a charitable trust. It is owned by PoPP1 Ltd (a pseudonym). There are two shareholders of PoPP1 Ltd. The shareholding is split, with 51% to an individual, who founded PoPP1 Ltd. This individual gave the remainder, 49% shareholding to the charitable organization at his will. Again, under terms of the will of this individual, his shares in PoPP1 Ltd will pass to the charity after his death. PoPP1 Ltd has the following narrative at its webpage:

‘Companies often split into several entities for legal or financial reasons, and so there can be many companies as part of the same family. Holding companies are the parent companies of a particular organisation’.

True to this narrative, PoPP1 Ltd’s subsidiary, PP1 Ltd has a number of subsidiary organisations and investment interests in a number of organisations31. These organisations provide construction and facilities management services. There is no information that PoPP1 is directly involved in any LIFT scheme or PFI.

Again consistent with LIFT but unlike PFI, JV1 Ltd, has exclusive rights which allow it to deliver (design, build, finance and manage) a succession of small, discrete but community-

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31 As PP1’s investment interests in LIFT is relevant at this stage of the analysis, the number of other interests/subsidiaries are considered in Figure 6.4 where they are particularly relevant.
based PCT building projects across a defined geographical area, referred to as the LIFT area, over a period of between 25 to 30 years.

In JV1 Ltd, the initial set up costs, which are described as shareholder undertakings, are financed by funds contributed by shareholders and recovered within seven years. In order to deliver the successive and discrete PCT building projects, JV1 Ltd has depended largely on discrete debt funding. But how the discrete debt funding is secured is very insightful as it requires that some form of financing structures are set up. These come in the form of SPVs which are described by directors in interviews and in some official government documents as fundcos. JV1 Ltd and the fundcos are all intentionally designed to be equity capital shareholding companies. As it came across in the interviews, by this means the bank achieves its desire that each tranche of its investment is ringfenced as a separate legal entity. The consequence is that JV1 Ltd and its SPVs together, form an elongated organising corporate structure. This means, in contrast to PFI where there is typically just one SPV per contract, that the LIFT scheme ultimately leads to layers of organisation structures, with the LIFTCo as a parent company and the fundcos as subsidiaries. As reflected in Figure 6.3, as more and more discrete debt funding is secured and more subsidiary companies are formed, the structure (organisation form) expands and becomes more elongated.

Therefore, JV1 Ltd, which began with one subsidiary, has over the last eight years and as Figure 6.3 shows, increased to seven subsidiaries. These collectively, form the JV1 group Ltd. Among these, six of them are financing structures: fundcos 1 to 6 as they hold discrete funds for discrete projects. These subsidiary companies hold debt funds which are ringfenced so that returns accrued to such companies are appropriated accordingly to the debt fund providers. A recent development in the JV1 scheme is holdco 1 (as shown later JV2 scheme has always had holdcos). This holdco adds to the drawn out and complex corporate structure of the JV1 scheme. Because the private sector partner in the JV1 scheme is involved in two other LIFT schemes this also adds to the complexity.

In summary, the LIFT scheme is not simply a grouping together of smaller projects but involves a much more complex organisation form than acknowledged by government. This complex structure increases the complexity of financial reporting and therefore complicates the process of achieving accountability (see section 6.4).
In the corporate set up described above there are also some contractual relationships. In the JV1 group Ltd organisation form, an interviewee revealed that three standard agreements are imperative as they shape, constrain and enable practices and behaviour. These are the Strategic Partnering Agreement (SPA), the Lease Plus Agreement (LPA) and the Shareholder Agreement (ShA). It was impossible to obtain these agreements from the case organisations despite a request under Freedom of Information (FoI) Act 2000.

However, it was possible to obtain standard copies of the agreements from the Community Health Partnership’s webpage. While the ShA regulates the joint venture company, particularly, the company’s responsibility to shareholders, the SPA regulates the partnership working and the LPA regulates the occupation of the LIFT building facilities particularly, the rights and responsibilities under the lease. As presented in Figure 6.3, the 2-PCTs are both shareholders and tenants of JV1 group Ltd. As shareholders and consistent with the ShA, the 2-PCTs require profit. However, the 2 PCTs as tenants desire to buy services and tenancy as cheaply as possible. A question that may be asked is whether it is possible to achieve this twin desire. This is noted as a source of real and potential conflicts of interests (See Section 7.3 below).

6.2.3 The JV1 Group Ltd as a Highly Geared Set Up

This subsection shows that while the UK government’s plan for the LIFT scheme emphasizes its equity capital shareholding character, in practice, the LIFT scheme is substantially, a debt driven model as also pointed out by Beck et al. (2010). While JV1 group Ltd does involve companies which are limited by shares, these companies are highly geared. However, the insight that can be drawn from the equity capital and the debt capital in JV1 group Ltd is that they respectively provide authoritative and allocative resources, sources of power for equity shareholders and debt capital providers that have been increasingly relevant in the mundane financial reporting and oversight activities of directors in JV1 group Ltd. These features are explored further below.

32 www.communityhealthpartnerships.co.uk/?id=74&ob=1 last accessed on the 19th of April, 2012.
Table 6.1: Capital structure of the JV1 group Ltd

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
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<td>58,380</td>
<td>68,456</td>
<td>67,618</td>
<td>71,267</td>
<td>83,837</td>
</tr>
<tr>
<td>Equity</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

(Source: Annual reports and accounts (various years))

While as shown in Table 6.1, the equity capital for the group has remained constant at some £11,000\(^3\) since the setting up of the group, the debt capital has grown from about £3.5million to about £83million. As the capital structure stands, equity is small: less than 1% of the capital structure. The debt capital increases as new schemes come on board in

\(^3\)The equity capital is £11,220 and has been rounded. It is the equity capital in JV1 Ltd, which was used to set up fundco 1 and £1 for each of the other fundcos and the holdco 1. It is therefore to be noted that adding all of them together will amount to double counting, which explains why the total equity capital is 11.
different years. The debt capital of the JV1 group Ltd consists of debt in JV1 Ltd and its subsidiaries which are presented in Table 6.2 and described subsequently.

Table 6.2: Debt structure of JV1 Ltd and the subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tr>
<td><strong>JV1 Ltd</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Shareholder</td>
<td>291</td>
<td>301</td>
<td>222</td>
<td>139</td>
<td>143</td>
<td>147</td>
<td>50</td>
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<tr>
<td>Subsidiary</td>
<td>0</td>
<td>252</td>
<td>528</td>
<td>73</td>
<td>204</td>
<td>0</td>
<td>32</td>
<td>548</td>
</tr>
<tr>
<td>Total debt</td>
<td>291</td>
<td>552</td>
<td>750</td>
<td>211</td>
<td>347</td>
<td>147</td>
<td>82</td>
<td>600</td>
</tr>
<tr>
<td><strong>Fundco 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>1,886</td>
<td>17,573</td>
<td>21,345</td>
<td>21,060</td>
<td>20,814</td>
<td>20,562</td>
<td>20,293</td>
<td>20,003</td>
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<td>Shareholder</td>
<td>1,271</td>
<td>2,313</td>
<td>2,670</td>
<td>2,400</td>
<td>2,242</td>
<td>2,270</td>
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<tr>
<td>Total debt</td>
<td>3,157</td>
<td>19,886</td>
<td>24,015</td>
<td>23,460</td>
<td>22,056</td>
<td>22,832</td>
<td>22,409</td>
<td>22,106</td>
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<td><strong>Fundco 2</strong></td>
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</tr>
<tr>
<td>Bank</td>
<td>15,027</td>
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<td>21,552</td>
<td>21,334</td>
<td>21,076</td>
<td>20,818</td>
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</tr>
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<td>Shareholders</td>
<td>2,280</td>
<td>2,463</td>
<td>2,484</td>
<td>2,398</td>
<td>2,365</td>
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<tr>
<td>Total debt</td>
<td>17,307</td>
<td>24,256</td>
<td>24,036</td>
<td>23,732</td>
<td>23,441</td>
<td>23,164</td>
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</tr>
<tr>
<td><strong>Fundco 3</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
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<td>Bank</td>
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<td>2,086</td>
<td>2,067</td>
<td>2,044</td>
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<tr>
<td>Shareholders</td>
<td>226</td>
<td>250</td>
<td>246</td>
<td>251</td>
<td>247</td>
<td>246</td>
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<td></td>
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<tr>
<td>Total debt</td>
<td>1,378</td>
<td>2,375</td>
<td>2,351</td>
<td>2,337</td>
<td>2,314</td>
<td>2,290</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fundco 4</strong></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Bank loans</td>
<td>6,396</td>
<td>16,800</td>
<td>16,687</td>
<td>16,600</td>
<td>16,528</td>
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<tr>
<td>Shareholder</td>
<td>1,682</td>
<td>1,866</td>
<td>1,883</td>
<td>1,872</td>
<td>1,862</td>
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<td>Total debt</td>
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<td>18,666</td>
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<td>18,472</td>
<td>18,390</td>
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<tr>
<td><strong>Fundco 5</strong></td>
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</tr>
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<tr>
<td>Shareholder</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total loans</td>
<td>105</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fundco 6</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>2,036</td>
<td>14,378</td>
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<td></td>
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<tr>
<td>Shareholder</td>
<td>2,513</td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>1,886</td>
<td>17,573</td>
<td>37,524</td>
<td>51,374</td>
<td>61,271</td>
<td>60,669</td>
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<td>Shareholder</td>
<td>1,562</td>
<td>2,614</td>
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<td>6,934</td>
<td>6,981</td>
<td>6,949</td>
<td>9,163</td>
<td>9,518</td>
</tr>
<tr>
<td>Subsidiary</td>
<td>0</td>
<td>252</td>
<td>528</td>
<td>73</td>
<td>204</td>
<td>0</td>
<td>32</td>
<td>548</td>
</tr>
<tr>
<td>Overall total</td>
<td>3,448</td>
<td>20,438</td>
<td>43,450</td>
<td>58,380</td>
<td>68,456</td>
<td>67,618</td>
<td>71,267</td>
<td>83,837</td>
</tr>
</tbody>
</table>

(Sources: Annual reports and accounts (various years)
From Table 6.2, the debt capital of JV1 Ltd (the LIFT Company) is contributed by its shareholders and its subsidiary companies. The shareholder loan component of the JV1 Ltd’s debt capital is described in the financial reports as *amount due to the shareholder undertakings*. It is provided by the shareholders to meet initial set up and bidding costs and is *repayable in equal instalments upon entering into further LIFT venture agreements up to a maximum of seven years*. In other words, it is to be spread across several but discrete projects over time.

JV1 Ltd has no bank debt in its debt capital. Despite this, it is also worth noting that a significant proportion of the debt capital for the JV1 group Ltd, approximately, 90%, is bank debt. However, this is not arranged through the LIFT Company: JV1 Ltd. It is arranged essentially through the fundcos which are financing structures necessarily required to enable discrete debt funding for Primary care buildings (see NAO, 2005). The bank, by contributing this huge percentage of the capital structure possesses allocative resources (See section 7.2), power to increase or withdraw from continuous flow of debt investment in the JV1 scheme.

The shareholders of JV1 Ltd have, as reflected in the loan structure presented in Tables 6.1 and 6.2, chosen to contribute to the debt capital instead of equity capital. Therefore, the debt capital of the subsidiary companies is contributed to not by bank only but also by the shareholders: the participating partners. The shareholder debt capital in the subsidiary companies, unlike the shareholder debt capital in JV1 Ltd, contributes to financing the discrete building projects.

Taken together, the debt capital of JV1 group Ltd consists of bank loans, subsidiary companies’ loans to JV1 Ltd, shareholder loans to subsidiary companies and amounts due to shareholder undertakings. Among these, the bank loans are described in the financial reports as senior debts and the shareholder debts are subordinated debt. This quintessentially means that in the event of liquidation, the shareholders’ claim in relation to the subsidiary debt as well as their equity on the companies’ assets is second to the bank loan providers. Also, in terms of revenue distribution, bank loans’ interest payments and principal repayments are prioritised in relation to shareholder loans’ interest and equity capital returns.
Also worth noting is that the interest paid on these loans is aggregated and thus it is impossible to reconcile interest payments with the type of loans.

The next few paragraphs explore the relevance of the equity capital shareholding in JV1 group Ltd.

The equity capital in these companies is less than 1% of the capital structure and therefore, unnecessary in monetary terms. However according to UK companies law, there needs to be a minimum amount of share capital to have a company limited by shares. The concern for this study is: whether the joint venture (JV1) and the fundcos need to be limited liability companies. However, they are companies for a reason. Indeed, they are companies because that is what they are set up to be (see NAO, 2005; NHS Plan, 2000; PAC, 2006). If the small size of the equity capital shareholding is any guide, it will mean that the intention of the LIFT scheme is not to attract equity capital as a major component of the capital structure, as confirmed in interview and also corroborated by other pieces of evidence. As a public sector director in interview said, they are established as companies limited by shares so that they can behave as companies limited by shares and thus give funders legal protection. Also, CHP responded as follows to the question: why is LIFTco set up as a company limited by shares in its frequently asked questions34.

‘A company is a relatively simple and efficient way to structure a Public Private Partnership. It offers the potential for GPs or groups of GPs to become part-owners. The NHS (and GPs) has the key role in determining where investments are made (and will share in any profits - which it can then reinvest in healthcare). The Department can sell its shares. This is not a long-term investment - it is a catalyst for change’.

Among the issues that emerge from the above quotation is the making of profit, which UNISON (2003), describes as a commercial orientation of the LIFT Companies. Therefore, profit making and delivering financial returns to shareholders have become how purpose, meaning, legitimation and power are attributed to everyday activities in the LIFT companies (see section 7.2). Also, it gives shareholders, through their representatives, some authoritative resources (see section 7.2), which are powers to affect the way and manner the company is run and directed.

34 http://www.communityhealthpartnerships.co.uk/index.php?ob=1&id=10#txt128 last accessed on the 23/04/2012
This orientation is a result of several decades of successive UK governments’ reforms to challenge the traditional purpose and meaning of PCTs, which traditionally operated in the name of the social, and the public interests rather than profits and returns for shareholders.

The historical roots of this commitment as noted in the NHS Plan (2000) lay in the NHS Act 1948: the Act that set up the NHS. Under the traditional mode, immense powers were claimed by the medical profession whose members, including GPs, claimed the right to make decisions based on their Hippocratic Oath and not based on any administrative plan or any commercial logic (cf. Lawrence et al., 1997). The LIFT scheme takes the private sector and finance capital involvement in the PCT and GP premises further because it adds to the growing influence of finance capital in the public sector.

The next section explores the workings of the board of directors in the JV1 group Ltd under a broader category of governance and oversight. This is followed by a section that examines accounting and financial reporting.

6.3 Governance in the JV1 Group Ltd

Partnership working, transparency and confidence are some of the governance expectations from the LIFT policy (Rassell, 2008). Other variants of PPP have been criticised in the literature for failure to deliver on these expectations (Acerete et al., 2010; Shaoul et al., 2008a, 2010; Stambrook, 2005). Three recent reports on PFI by House of Commons Treasury Committee, (2011) and NAO (2009a and 2009b) add to the concerns in the literature on PPPs in general. The UK government had hoped to overcome these governance concerns with the LIFT scheme (eg. Rassell, 2008).

This section shows a shift from the principles of partnership working, transparency and confidence implied in the LIFT policy to rather different practices and examines the extent to which the shift enhances partnership working between the public and private sector partner and complicates external scrutiny. Ultimately, the intention is to reveal this shift as an essential aspect of Giddens’ structuration theory. Giddens had offered a situated nature of practices (Giddens, 1984). Therefore, for this study, the shift operates as a valuable caution against those determinist accounts that explain the LIFT scheme by concentrating on the formal organisational model of the LIFT scheme itself rather than on the situated
practices. Among the issues revealed is the fact that the private sector directors have control over governance in the JV1 group Ltd with some consequences (see section 6.5 below) which are not necessarily in the interest of the public sector. These matter as they address key questions posed in the introductory chapter of this thesis.

The remainder of this section examines how governance has been conducted in JV1 group Ltd.

In some government commissioned reports, the Strategic Partnering Board (SPB) is given prominence in that it is featured in LIFT organisation charts as if it is the only oversight arrangement (NAO, 2005; PAC, 2006). However, in practice, this is not the case. As a director in JV1 group Ltd insists, the SPB has essentially been restricted to new business cases. That is, once the business case is completed, the SPB becomes effectively redundant as it is not engaged with during the construction phase or when these projects become operational. This undermines the government’s intention to rely on the SPB to achieve partnership working. Given this, it would seem that human agents lack the necessary resources and capabilities from the SPB so human agents in the JV1 case must draw their resources and capabilities from other governance arrangements in order to affect the day-to-day governance activities.

During the building of projects and when projects are operational, the Board of Directors of JV1 group Ltd becomes a major functional governance arrangement that affects oversight, demands justifications for conduct, and controls activities of the JV1 group Ltd.

The membership of the board of directors is constituted by the equity capital shareholders. The private sector partner who owns 60% of the equity capital thus contributes 60% of the members of the board of directors and the public sector partners: the two PCTs and CHP collectively contribute 40% of the board of directors. More precisely, of the five directors on the board of directors in the JV1 group Ltd, the private sector and the public sector shareholders contribute three and two respectively. This appears to support the partnership working between public and private sectors referred to by government (NAO, 2005; Treasury, 2003), because both sectors have representatives involved in the management of JV1 group Ltd.
But the influence of each class of directors may vary. A UK Treasury guidance note on the LIFT scheme identifies two sources of influence that directors may have over the management and direction of the LIFT Companies (Treasury, 2010a). The first source of influence is linked to the proportion of shares held by shareholding class represented by a director and the second is any voting rights reserved to the shareholder represented by a director.

In the case of the JV1 group Ltd, respondents state that there are no rights reserved for any shareholder and that voting rights are in accordance with the proportion of shareholdings. It thus means that greater influence over the management and direction of JV1 group Ltd is held by the private sector directors. The private sector’s control of governance is achieved by providing 60% of just £11,000 equity capital. That is, very small amounts of equity capital thus give control over very large deals. In total some £83m is being managed over 20 to 30 years by people who are not necessarily accountable to the public and who have acquired that dominance with small amounts of equity capital. Also worth noting in this regard is that it creates the opportunity for private sector directors to dominate these two PCTs’ strategy in relation to LIFT especially as there are no restrictions as to how JV1 group Ltd can earn their surpluses.

The dominance of the private sector directors over governance in the JV1 scheme does not seem to concern the public sector directors. There are a number of examples given in interviews to suggest that all is well with the private sector control over governance. Indeed the public sector directors find the presence of the public sector directors on the LIFT board as enough security for the public sector interest in the scheme. As one PCT director (D1b) in interview puts it:

‘The fact the PCT directors are actually on that board, they're there, so it's not as if the company thinks they can’t see. They're actually in the LIFTCo (JV1 Ltd) itself’.

In response to a specific question of whether PP1 as a partner and as a facilities manager creates governance problems, some public sector directors in interview made a lot of observations that suggest a positive impression of private sector control over governance in the JV1 scheme. The Chief Executive Officer (CEO) of JV1 Ltd, in an interview for this study, observed that:
‘It's actually proved very beneficial, because the PP1 Group have overall control and we, as a company, have a good relationship with directors at the PP1 Group, if there was even a whiff of a problem, what we found is they'd sort it out. So where you have huge subsidiaries, have it with people like Balfour Beatty and Bovis, national, you know, big international companies, they tend to argue with one another about liability. We haven’t had that problem, I’m very pleased to say, at all’.

The benefits attributed to the private sector control over governance are not restricted to the working relationship of both the public and private sector directors and maintenance liability but also to the long term strategy of JV1 group Ltd. As this CEO further stated:

‘Another approach that we’ve taken as a LIFTCo is to take a long-term view on things. So even if, for example, we’re not liable for something because at the time of building, building regulations were this way but something has changed, if we feel that there’s a problem in the building, we’ll sort it out. And we can demonstrate that we’ve done that’.

Furthermore, a PCT director (D1b), explains that feedback from external stakeholders says there are benefits to private sector control:

‘Also the LIFT board gets regular reports now on user surveys. So you get the centre managers, podiatrists, any range of professionals work in those buildings responding. And we get good responses in terms of numbers and percentage response to their view of the building, the facilities provided in it, responses to, and so on and so forth. And those, again, are regularly monitored through the LIFT board, as I said, how the PP1 Group are responding to the facilities management requirements of those buildings’.

A further example that suggests that the public sector directors are happy with the private sector directors’ control of the JV1 scheme is reflected in some proceedings in a board meeting. In one of these a director informed the board that the PP1 group had been approached by one of the major banks to enquire if the PP1 group might be interested in selling some of its equity capital shareholding. He then added that the matter had been discussed by the PP1 group Board where the decision had been made that the shareholding was not for sale. The JV1 board welcomed the news that no such sale was to be contemplated and acknowledged that it reinforced the spirit of partnership working which had made JV1 such a success. This represents the spirit of partnership working referred to by Rassell (2008) which is identified as fundamental to the governance regime in LIFT. This illustrates the importance of trusting and believing in one’s partner.
Thus far, it appears that the public sector directors are acting on trust which they derive from what could largely be described as informal structures because they can hardly be captured in the formal and prescribed structures in for example, LIFT contracts. Wang and Ahmed, (2002) describe informal structures as the organic, soft, living, competing and interacting forces between the individual and the social and the hidden energies within an organisation which are not visually illustrated in the organisational chart (the corporate structure). Following on this, the informal structures in the JV1 scheme would include: dedication, philosophy, aligned ethos and the idiosyncratic relationships, community and local attachment.

In respect of dedication of the private sector, a PCT director (D1b) comments that:

‘….. they do have dedicated individuals based in the JV1 area, be it Mr. B (pseudonym), be it Mr. L (pseudonym) working in those buildings and responding to queries from within the proximity, do you know what I mean? So there’s a local team in all the buildings who we are familiar with and work with’.

And [Mr. M (pseudonym)], who’s my head of estates, regularly meets with Mr. B at the building centre, I think on a quarterly basis now, to go through each of the reports of any of the issues that have been put forward, anything outstanding, has it been dealt with, what sort of response times have they been, and they’re reviewed on a quarterly basis as well’.

In a related case, the CEO of JV1 (D1d), who has had experience of less good working relationships with private sector directors elsewhere35, in an interview for this study states:

‘I genuinely think the difference is philosophy. They (the private sector directors) take a very long-term view of the partnership. They want the partnership to work. They wish to retain a good reputation. And also all the partners have the same philosophy. I think we’re actually quite proud of our LIFT buildings and we want LIFT to work and we want it to do well. And in this area I think it has done exceptionally well.

It is the quality of the enduring relationship and the fact that if something goes wrong and we have a major fall-out, you can't walk away from it and say oh, it doesn't matter, because you're going to have to meet with those people the next week, the next month to look at the next one. And it's a good discipline’.

There is also a view that this particular private sector partner (PP1) has an ethos that is similar to the public sector. As the CEO of JV1 Ltd (D1d), in an interview describing the ethos of this partner observes:

35 The CEO had this experience when she was working in the public sector.
‘Yes, definitely more in line with public sector ethos. ….. they run their business at a profit, but a good proportion of that profit goes straight into a charitable trust with which they do work across the XXX area (the regional area where the JV1 scheme is located)’.

Another issue that came across in the interview is how community and local attachment of the private sector partner has been beneficial to the functioning of the private sector control over governance. Closely related to this are the idiosyncratic relationships that public sector directors have harnessed from what they describe as a result of working with local and small company directors. As the CEO of JV1 Ltd in an interview observes:

‘And again, that's a very distinct business strategy that they have, that they're very allied to the XXX and want to remain strong in the XXX area’.

Another interviewee, a public sector director (D1c) in support of the above observation adds that:

‘They've also got quite a strong community ethos as well in terms of putting back into the area, not necessarily here, but which I think we value because it says something about their philosophy’.

The community focused character of these private sector directors appears to have received endorsement not from the public sector only but also from a private sector advisor (A1) to the JV1 scheme. As this advisor in an interview summarises in relation to the focus of the private sector directors that:

‘In terms of bidding for schemes, they've not gone for schemes all over the country. They've been very much focused in the geographical area (XXX area)’.

This advisor adds:

‘I think as well as a kind of vehicle, the difference compared to, say, PFI, you know PFI is a one-off, kind of build it, it will never do that again, from the Trust side. Because you've got a number of schemes coming along here after a period of time, there is that can't do something and that's it, it's fixed. There's further discussion and learning each time from the lessons. And they've been actually on the Board as well, it's more partnership working. It's not the opposite sides of the table, contractual line in the sand, it's different to that’.

In summary the board of directors of the JV1 group Ltd is the most important governance arrangement in the day to day activities of the group. This section has shown that there is a
dominant control by the private sector directors over governance to which the public sector directors do not object. The public sector directors have restricted their assessment and description of the workings of the board of directors to the operational successes of the JV1 group Ltd. This has involved delivery of PCT buildings, their maintenance and the JV1 group Ltd’s moving forward. It is thus, a case that the public sector directors have building projects under the JV1 group Ltd which they are pleased with and therefore, they have no reason to object to private sector dominance. Therefore, partnership working and success of the LIFT scheme may depend on trust and key personalities working together.

However, the seeming endorsement of the private sector control over governance in the JV1 group Ltd by the public sector directors and their advisor may be a case of the public sector directors uncritically and overly trusting the private sector. While the scheme may have delivered some operational benefits, the concern for this study is that the private sector directors have had total and unhindered control to pursue their own fiduciary duties. The consequence of this includes internalizing the interest of private sector and finance capital interest. These are reflected in the ways and manner of accounting and financial reporting which are explored in the subsequent sections.

6.4 Accounting and Financial Reporting in the JV1 Scheme

6.4.1 Introduction

This section seeks to explore accounting and financial reporting using the JV1 scheme as an exemplar. Subsection 6.4.2 shows that because of the fiduciary duty of care to shareholders and finance capital, the reporting in the JV1 group Ltd is finance-based, so that the information role of financial reporting is deemphasised and instead, the primacy of finance capital is emphasised. Subsection 6.4.3 examines the consolidation policies across the organisations associated with the scheme and reveals the considerable changes in reporting across time and space and, therefore, the chaotic and inconsistent character of the consolidation practices in the JV1 scheme. Subsection 6.4.4 examines other accounting issues involving the role of management accounting, related party transactions and tax benefits of the scheme. Subsection 6.4.5 explores the financial reporting of the PCTs as it relates to the JV1 scheme.
The intention is to reveal the extent to which the structures of the LIFT scheme complicate financial accountability and governance including external scrutiny. The ultimate goal is to reveal this as an essential aspect of Giddens’ structuration. Again this matters as it addresses key questions posed in chapter one of this thesis.

### 6.4.2 Fiduciary Duty and Finance-based Reporting in the JV1 Group Ltd

JV1 Ltd and its subsidiaries are shareholding companies so that directors have fiduciary duties to make profit and generate returns for the shareholders and finance capital. In JV1 group Ltd, this shareholding is regulated by the ShA which does not only set out the initial shares of the respective shareholders but also requires that JV1 group Ltd is managed in ways that deliver sustained profit for shareholders. As a result, the primacy of shareholders and thus, finance capital, is the priority in JV1 group Ltd, as it is for all companies limited by shares.

As may be recalled from chapter two, Amernic and Craig (2004:352) observe:

‘the language used in support of accounting practice is based on a world of corporate endeavour which assumes the primacy of shareholders, and which imposes legal and fiduciary obligations on directors and corporate officers to promote shareholder value—there is no equal fiduciary duty to promote the wellbeing of employees and communities’.

Moreover, Amernic (1986) has observed that in analysing financial reporting cases, it is important to highlight what it is about the case that may impinge on financial reporting. The section therefore raises this question: what is the influence of finance in JV1 group Ltd’s financial reporting? In JV1 group Ltd, the fundcos (financing structures) impinge on its financial reporting. These financing structures are the bases of the financial reporting in JV1 group Ltd. With a pittance of equity capital, a financing structure: debt finance in JV1 group Ltd was transformed into a company, and such a company then becomes a reporting entity. The accountability implication is that reporting emphasizes fiduciary duty of care to finance capital and shareholders and is finance-based, reflecting what is described in the financialisation literature as primacy of finance capital, finance-based accumulation (eg. Andersson et al., 2010; Blackburn, 2006; Froud et al., 2002a; 2002b; Goldstein, 2009; Krippner, 2005). Each subsidiary becomes separate (ringfenced) and as reporting entities, each is treated as a profit centre and for the purposes of accounting for financial returns.
The returns are expected to be enough to meet the obligations under the terms of the debt financing, giving the financiers, security of their returns. It is perhaps in this regard that directors in JV1 group Ltd reassure the shareholders in their 2009 directors’ report of their commitment to these duties when they state that:

‘The group’s existing schemes can and will continue to operate as projected, generating strong cashflows and required returns to both stakeholders and funders’.

However, one particular way of ensuring that each subsidiary is accounted for separately is the Lease Plus Agreement (LPA) which enables the ring fencing of all cashflows to relevant subsidiaries. The LPA is an instrument of signification because it is an interpretive schema for financial reporting in the JV1 group Ltd. Also, it is an instrument of legitimation because it provides legal protection and sanctions the manner in which financial reporting in the JV1 group Ltd is conducted.

An advisor (A1) in agreement with some directors36 said:

‘What having a separate FundCo allows is, all the cash flows for that particular scheme to be ring fenced. And the bank then has got security and confidence over that one’.

In the JV1 group Ltd, each subsidiary’s profit and loss is organised along this arrangement where revenue streams are appropriated to the finance provider. This ultimately privileges finance capital and contributing to the growing rise to power of finance capital noted by (Andersson et al., 2010; Goldstein, 2009; Mahmood, 2004).

In the balance sheets of each subsidiary, the costs of projects (PCT buildings) are accumulated over time. While no references are made in the balance sheet to the specific assets, it is expected that at the end of the LIFT contract for the groups, the underlying buildings would be put on the market for sale, with the NHS having the first option to buy. The resulting proceeds are used to make what is described as bullet payments namely, tranche payments, with debt finance capital taking 30% of it, and the remaining 70% is split into 60:20:20 for the private sector, two local PCTs and CHP respectively (as explained by an interviewee) and corroborated by Mahmood, (2004). This represents

36 D1a, D1b, D1c and D1d) agreed with A1
accumulation through rentier income namely, financing the PCT buildings by debt and selling them in the future for profit (Epstein and Power, 2002; Finlayson, 2009; Nölke and Perry, 2007).

Conventionally, it is alleged that financial reporting derives its relevance from the fact that it is part of the discharging of legal and moral accountability by the company to its users, people with interest in the company such as investors, present and potential (Amernic, 1998). And in the process, it is expected to provide an information relationship between a company and users of accounting information (Amernic, 1998). But in the JV1 group Ltd, the information role of financial reporting appears marginalized for the following reason.

Much of the extant empirical literature on PFIs, as discussed in the literature review section, identify that as financial reporting under PFI is project based, it is focused on projects, makes reference to projects and thus makes projects visible in financial reports. It thus makes it possible to at least attempt to match projects with their cost, even though, there is evidence of a lack of transparency (eg. Shaoul et al., 2008b).

The finance-based financial reporting practices repeated in the JV1 group Ltd contrast with the project-based reporting under PFIs. As under the JV1 scheme, financial reporting is based on fundcos and is thus based on the financing structures. However, as each fundco usually represents a number of projects and no reference is made in the annual financial reports to the specific projects, visibility of projects under various fundcos is lost. All attempts to reconcile the projects under the JV1 group Ltd with the various fundcos and by extension, the various subsidiaries were futile. As limited companies, all financial reporting follows private sector accounting regulations and Company Law. And as noted by Shaoul et al. (2010) in respect of road PFIs, there is minimal disclosure in terms of information available to the general public.

One would have to rely on internal management reports and/or financing contracts in order to match debt with specific projects. While management will, and shareholders and finance capital providers may have access to the reports and contract, there are some implications for public accountability as access to these reports and contracts are not available for the public. Also, while in LIFT, accountability as a social relation (Bovens, 2010) focuses on the relationship between agents (managers, accountants and directors) and forum:
shareholders and finance providers, one might expect that other stakeholders such as the taxpayer and the general public are part of the forum, the finding is that they are not. Therefore, in this case, LIFT makes PPPs rather more opaque and thus contributes to lack of transparency.

6.4.3 Consolidation Policies in the JV1 Scheme

Given the majority equity capital shareholding shown in the corporate structure presented earlier in Figure 6.3, it would be expected that PP1 would consolidate JV1 Ltd and that it in turn would consolidate its subsidiary companies. However, this has not always been the case across these organisations. In fact, accounting policy on consolidation changed. This section seeks to investigate two questions about that: first, reasons that account for the non-consolidation and second, reasons that account for the change to consolidation. In addition, the section draws on a flowchart presented by KPMG (2011) to reveal how misleading the term ‘joint venture’ has been used in the JV1 corporate structure and using private sector experience to explain why non-consolidation is an issue of concern.

Figure 6.4 shows that as well as its interests in the JV1 group Ltd, PP1 Ltd, also has equity capital shareholding interests in a number of companies including two other LIFT schemes shown as LIFT 1 and 2. PP1 is therefore, involved in a complex chain of companies and elongated corporate structure in which JV1 group Ltd is necessarily implicated, particularly, in terms of consolidation of the group members. Going by the corporate structure, PP1 Ltd is a parent company, it would be expected that as a parent, it would determine accounting policies including consolidation policies of the group.
Figure 6.4: PP1 Ltd and its organising elements

(Sources: Annual reports and accounts (various years)
• **Consolidation policy of PP1 Ltd**

Despite the group character of PP1 Ltd, a close examination of its financial reporting records shows that the balance sheets and profit and loss accounts of PP1 Ltd and its subsidiaries including JV1 Ltd were not consolidated prior to 2007. There are thus two important periods in the financial reporting of PP1 Ltd: first is the period when no consolidation was done and, second, the period when PP1 Ltd started consolidation of its other interests. Therefore, it is important to understand how the process of financial reporting unfolds and how certain structures are deployed through directors’ agency to affect changes in financial reporting across these two periods. The aim is to reveal how private sector reporting in these complex organisation structures has implications for LIFT financial reporting.

Until 2007, directors of PP1 Ltd have accounted for its equity capital holding interests in other companies including JV1 Ltd as simple investments (FRS 25 Financial Instruments: Presentation and 26 Financial Instruments, recognition and measurement and their respective international equivalence IAS 32 and 39) and therefore valued at cost and part of fixed assets, in its unconsolidated balance sheets. The total investments as at the beginning of the 2007 financial reporting period amounted to £473,286. These include investment in JV1 group Ltd, which is £6,734, and could only be ascertained from a reconciliation of the 2003 unconsolidated balance sheet of PP1 Ltd, and the 2003 balance sheet of JV1 Ltd. This accounting treatment is not what should be expected. Normally, a simple investment is deemed to exist where an investor does not have power to participate in the financial and operating policy decisions of the investee. A rule of thumb is that the investor should have less than 20% of the equity capital in order for the simple investment assumption to hold. Given that PP1 Ltd has 60% equity capital of JV1 Ltd and has dominant control over JV1 Ltd, the simple investment accounting of its interest in JV1 Ltd is very misleading and concerning. Under normal accounting rules JV1 Ltd is a subsidiary and should have been treated as such.

While prior to the 2007 financial reporting period, directors did not distinguish PP1 Ltd’s equity interests in its various companies, from 2007, directors regrouped PP1 Ltd’s interests into two categories, subsidiary undertakings and joint ventures. Together with four other companies including the two other non-LIFT companies, JV1 Ltd became
reclassified a joint venture. PP1 Ltd now consolidated its subsidiary and joint venture undertakings. The basis of consolidation is described in the financial reports since 2007 as:

‘The consolidated financial statements include the financial statements of the company, all of its subsidiary undertakings and the group’s share of the results and net assets of joint ventures’.

In seeking to understand LIFT accounting (joint venture accounting), it is valid to locate it in terms of the government’s own rhetoric around the LIFTCo as a joint venture. This does not mean that this study is simply moving to a relativistic view of LIFT. Instead, it means that any evaluation must move beyond this rhetoric. In order to evaluate the joint venture accounting, it is therefore very important to explore whether JV1 Ltd is indeed, a joint venture. KPMG (2011) provides a flowchart with a set of questions, that may be answered to test whether JV1 is a joint venture or not.

**Figure 6.5: Test for Joint venture**

<table>
<thead>
<tr>
<th>Structure: Is the arrangement structured through a vehicle that is separate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Legal form: Does the legal form of the separate vehicle give the parties rights to the assets and obligations for the liabilities of the arrangement?</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Contractual arrangements: Do the contractual arrangements give the parties rights to the assets and obligations for the liabilities of the arrangement?</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Other facts and circumstances: Do the parties have rights to substantially all of the economic benefits of the assets relating to the arrangement; and does the arrangement depend on the parties on a continuous basis for settling its liabilities?</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

Joint venture

(Adapted from KPMG, 2011:3)
In the case of JV1 Ltd, the answers to all four questions are biased towards ‘yes’ which means that it is strange to regard JV1 Ltd as a joint venture. It appears that directors and government have considered a ‘yes’ answer to the first question and without any regard for the remaining three considerations have chosen to have JV1 Ltd as a joint venture.

The directors of PP1 Ltd have used the gross equity method (IAS 31 Interests in Joint Ventures; FRS 9, Associates and Joint ventures) to include JV1 Ltd and other joint ventures in PP1 group Ltd’s balance sheets and profit and income statements. FRS 9 gross equity method is described as follows:

‘A form of equity method under which the investor’s share of aggregate gross assets and liabilities underlying the net amount included for the investment is shown on the face of the balance sheet and, in the profit and loss account, the investor’s share of investee’s turnover’ (FRS 9, paragraph 4).

Accordingly, from 2007, PP1 group Ltd has shown in its consolidated balance sheet its share in the gross assets, gross liabilities and any goodwill arising from the joint venture relationship less amortisation of all of its joint venture undertakings including JV1 Ltd. Also, PP1 group Ltd has shown in its consolidated income statement its share of turnover (this as a deduction from group turnover) and share in operating profit in all of its joint venture undertakings.

By classifying JV1 as a joint venture and using the gross equity accounting it is being suggested that PP1 Ltd has significant influence over these joint venture undertakings but has no control over them. This may be consistent with rhetoric around joint venture arrangements, which broadly assume joint control and that no one party has dominance over control. It suggests at best that PP1 Ltd has significant influence only, which is, the power to participate in the financial and operating policy decisions of JV1 Ltd, but not to control those policies.

However, this may be misleading because indeed and as described under the governance section (see section 6.3), the private sector directors representing PP1 Ltd dominate by 60% control of equity the mundane activities of JV1 Ltd. Therefore, the ‘no control assumption’ implied in the financial accounting can be viewed as wrong and thus makes the financial accounting concerning. So this, as is the case with the reporting prior to 2007
can be described misleading. This is even more concerning especially as significant amount of economic benefit of, in particular, JV1 Ltd and its subsidiaries are appropriated ultimately to PP1 Ltd. The gross equity accounting is thus inconsistent with the private sector dominant control over the management and the economic benefits of JV1 group Ltd.

In summary, prior to 2007, PP1 treated JV1 Ltd as a simple investment. From 2007 and beyond, PP1 reclassified JV1 Ltd as a joint venture and consolidated JV1 Ltd on the basis of gross equity accounting. Both treatments may be misleading as the evidence available suggests that JV1 Ltd is a subsidiary of PP1. The change in accounting basis from 2007 may be a case that directors did reclassify JV1 Ltd upon reflection and learning from a clear wrong accounting. However, from 2007, directors decided to draw on a joint venture rhetoric of joint control which is not consistent with PP1’s dominance over control of governance.

- Consolidation policies and practices of JV1 Ltd

Again, remember that JV1 Ltd is a parent of seven subsidiary companies, it would be expected that JV1 Ltd would consolidate the financial reports of such subsidiaries under JV1 group Ltd. On the contrary, the financial reports were not consolidated prior to 2009. This changed, and in 2009 and 2010 there is a consolidation of the financial reports but amid some chaos. There are therefore, two important timelines in the consolidation policy of JV1 Ltd. Reasons for non-consolidation and consolidation are explored in this subsection in order to reveal how the processes of financial reporting unfolds and how certain structures and narratives are deployed through directors’ agency to affect changes in consolidation policy across the two periods. The aim as previously is to reveal a private sector reporting in complex organisation structures and implications for LIFT financial reporting.

- The period up to 2009 – non-consolidation policy

Prior to 2009, JV1 Ltd treated its 100% interests in the fundcos/SPVs as simple investments. Note that directors use JV1 Ltd’s SPVs to secure debt to finance building projects under the JV1 scheme. Therefore, it raises the question of whether the policy of
non-consolidation is about hiding these debts from the parent’s books as has been the case in some examples in the corporate sector where an SPV structure is to allow a small part to collapse while protecting the rest of the investment (e.g. Baker, 2003; Clarke et al., 2003).

A way of overcoming what could be described as the paradox of non-consolidation is that once a parent is identified as having a beneficial ownership of the SPVs, the parent has to consolidate the SPVs as subsidiaries. A parent would be deemed to have a beneficial ownership if such a parent has rights to and obligation for underlying assets and liabilities of the SPVs (Maine et al., 2003).

Prior to 2009, there was no mention of the fundcos as subsidiaries and the focus was on delivery of health care premises. Accordingly, individual companies in the corporate structure in which JV1 Ltd is involved had a common narrative in their financial reports prior to 2009 which reads:

‘The principal activity of the company in the year under review was that of a Local Improvement Finance Trust (‘LIFT’) formed under the government LIFT initiative to develop and manage primary healthcare and associated facilities’.

There appears to be an emphasis on ringfencing of fundcos and distribution of fundcos’ revenue to finance providers, which is about the finance-based reporting as described in the earlier section. Directors have drawn on the ringfencing schema which as learnt through interview, means that the cashflows and assets inter alia for each fundco are protected to give the bank security and confidence in respect of its investment, as a justification for having separate financial reporting for each SPV. As JV1 Ltd has 100% control over governance of the SPVs, huge access to bullet payments (residual value of the SPVs’ assets) and other benefits including all the potential profits, it would be difficult to suggest that JV1 Ltd has no beneficial ownership. Therefore, one might expect a consolidation of all the subsidiaries.

The Companies Act permitted both small and medium sized groups exemption from preparing consolidated accounts prior to the period beginning from the 6th of April, 2008. Table 6.3 shows the conditions for a company or a group to qualify as small or medium.
Table 6.3 Conditions for company or group to qualify as small or medium

<table>
<thead>
<tr>
<th></th>
<th>Turnover (old conditions)</th>
<th>Turnover (new conditions)</th>
<th>Assets (old conditions)</th>
<th>Assets (new conditions)</th>
<th>No. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small company</td>
<td>Not more than £5.6m</td>
<td>Not more than £6.5m</td>
<td>Not more than £2.8m</td>
<td>Not more than £3.26m</td>
<td>Not more than 50</td>
</tr>
<tr>
<td>Medium company</td>
<td>Not more than £22.8m</td>
<td>Not more than £25.9m</td>
<td>Not more than £11.4m</td>
<td>Not more than £12.9m</td>
<td>Not more than 250</td>
</tr>
<tr>
<td>Small group</td>
<td>Not more than £5.6m (net)</td>
<td>Not more than £6.5m (net)</td>
<td>Not more than £2.8m (net)</td>
<td>Not more than £3.26m (net)</td>
<td>Not more than 50</td>
</tr>
<tr>
<td></td>
<td>or £6.72m (gross)</td>
<td>or £7.8m (gross)</td>
<td>or £3.36 (gross)</td>
<td>or £3.9m (gross)</td>
<td></td>
</tr>
<tr>
<td>Medium group</td>
<td>Not more than £22.8m (net)</td>
<td>Not more than £25.9m (net)</td>
<td>Not more than £11.4m (net)</td>
<td>Not more than £12.9m (net)</td>
<td>Not more than 250</td>
</tr>
<tr>
<td></td>
<td>or £27.36m (gross)</td>
<td>or £31.1m (gross)</td>
<td>or £13.68m (gross)</td>
<td>or £15.5m (gross)</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Companies Act, 2006, Chapter 46, part 2)

Directors have said in an interview that they have drawn on exemptions provided under the Companies Act (1985, 2006 as revised) to prepare non-consolidated balance sheets and profit and loss accounts prior to the 2009. Qualification applies if at least two of the conditions are met in the current and preceding accounting year. During the period up to 2009, the JV1 group satisfied the turnover and number of employees conditions.

- **2009 and beyond consolidation policy**

During the period 2009 and beyond, the practice of non-consolidation changed when JV1 Ltd started the consolidation of its interests in the other members of the group. The change from non-consolidation to consolidation is a case of a change in what appeared to be a stable practice. The directors’ practical, tacit and discursive consciousnesses of the Companies Act as well as their reflexive monitoring of their conduct contributed to the change in the consolidation policy.

There was a change in regulations as the Companies Act now gives exemption from the requirement to prepare group accounts to small groups but not medium sized groups. Therefore, as a medium sized company it was no longer qualified for exemption, it started to produce consolidated accounts. In both 2009 and 2010, JV1 Ltd departed from the above
narrative and focused on being a holding company with subsidiaries. The new narrative reads as:

*The principal activity of the company in the year under review was that of a holding company for the JV partnership. The principal activity of the group in the year under review was the provision of healthcare facilities in the JV area. The subsidiary companies are Local Improvement Finance Trusts (LIFT) formed under the government LIFT initiative to develop and manage healthcare and associated facilities* (2009 and 2010 Annual reports).

Taken together, in 2009 and in the 2010 amended financial reports, there is a consolidation of the balance sheets and profit and loss accounts of JV1 Ltd and the subsidiaries. As a result fixed assets, which hitherto consisted of JV1 Ltd’s investment in the subsidiaries, stated at £11,220 in the JV1 Ltd’s balance sheet increased to over £76m in the consolidated balance sheet in 2010.

In summary, prior to 2009, JV1 treated its 100% interests in the other 7 organisations (fundcos/SPVs) as simple investments. Directors have drawn on exemptions provided under the Companies Act. This changed in 2009 when directors could no longer take advantage of the exemptions as the directors had learnt that the JV1 group did not qualify for the exemptions. The change is an enforced departure from what appeared to be a stable practice, explored further in section 7.4.

- *Reporting turnover across the period*

Also of significance, is the variety of ways that turnover has been defined in the two periods. In the period prior to 2009 the subsidiaries report their turnover as income from the provision of healthcare and other associated facilities and the parent JV1 Ltd reports its turnover as rental income from pharmacies within the health centres. But in the consolidated accounts from 2009 onwards, turnover of the group represents sale of goods and value of work done excluding all internal transactions within the group. The calculation of the turnover as the notes to the consolidated accounts suggest is based on project accounting whereby turnover is based on estimates made on a project (FRS 11 Construction Contract and international equivalence is IAS 11 Construction Cost). In addition, rental income from pharmacies within the health centres represents other operating income.
Note that the turnover is a charge to the relevant PCTs and a number of issues flow from the ways it has been represented across the period. First, detailed components are not revealed and as a result, it is difficult for the purposes of public accountability (Shaoul, et al., 2008a), to ascertain items of interest such as for example how much of the sale of goods is from maintenance. This lack of transparency is especially important as under LIFT, LIFTCos have monopoly over maintenance (Aldred, 2006; NAO, 2005), maintenance cost has no minimum (Beck et al., 2010) and maintenance cost has been an issue in PPPs in general (Edwards et al., 2004; Hellowell and Pollock, 2010; Merrick, 2012).

Second, project accounting involves complex estimations which may or not be close to the actual but the accounts do not provide for any contingent liability. This is significant because FRS 11 Construction Contract requires that companies in such a situation will report on any contingent liability, in accordance with FRS 12 Provisions, contingent liabilities and contingent assets. The type of contingent liabilities that may arise may be in relation to circumstances such as the costs of guarantees, claims, fines or other losses. Therefore, as these are not reported, one cannot tell whether liability would increase in the future or not, another case of uncertainty. Third, because of the inconsistencies in the representation of turnover across the period, it can be difficult to make reasonable assessment and evaluation of the LIFT charges to the PCTs.

While the message thus far demonstrates both discursive and tacit aspects of practical consciousness of the directors as preparers of accounts, as well as their reflexive monitoring of that conduct, the sort of dynamism in reporting that emerges as a result makes it very difficult to understand the full outcome of the joint venture scheme. There remains a question as to whether there would be further changes in conduct in the future. Also, as the second case will reveal, as a result of the multiplicity of accounting regulations, financial reporting across the two schemes are inconsistent and chaotic.
6.4.4 Other Accounting and Financial Reporting Issues

- Related party transactions

In the JV1 scheme, the disclosure of related party transactions (FRS 8 Related Party Disclosures; and its international equivalence is IAS 24 Related party Transactions), in financial reports is not consistent across the participating partner organisations. The objective of both FRS 8 and IAS 24 is to ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. They require disclosures about the nature of the related party relationship, as well as information about transactions and outstanding balances with an entity's related parties necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosures would be made separately for each category of related parties and would include (FRS 8 Related Party Disclosures):

- the amount of the transactions
- the amount of outstanding balances, including terms and conditions and guarantees
- provisions for doubtful debts related to the amount of outstanding balances
- expense recognised during the period in respect of bad or doubtful debts due from related parties

While there has been disclosure of related party transactions in the individual accounts of the subsidiaries of JV1 Ltd, there has been no such disclosure in the annual financial reports of PP1 Ltd, JV1 Ltd or the two PCTs. Directors have drawn on exemptions provided under the accounting standards (FRS 8, Related Party Disclosure). As is stated in the PP1 accounts:

‘As the company is a wholly owned subsidiary of PoPP1, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entries which form part of the group’ (Annual report, 2009).

Taken together, it shows how directors have interacted with the organising elements of the JV1 scheme and the accounting standards to escape disclosure of related party transactions. Again, in the JV1 group Ltd, the SPVs (fundcos) subcontract all their construction works
to sister companies of the private sector partner of JV1 Ltd. The private sector partner makes profit through such sister companies which are not reflected in JV1 Ltd accounting and reporting. These limit transparency as users of accounts, particularly the public, would have to dig into subsidiary accounts in order to find additional information to evaluate the actual beneficiaries of the financial gains of the LIFT scheme. On this account, the JV1 scheme had failed to reveal some important facts of its dealings, especially as it is therefore very difficult to uncover any conflicts of interests that may emerge from the subcontracting and dealings with related parties. That is not transparency as offered by Koppell (2005). Also, as Shaoul et al (2010) have noted, because these sister companies are private companies, FoI\(^{37}\) does not provide a conduit to obtain any additional information. In short, JV1 Ltd, the joint venture cannot be relied upon to deliver transparency in terms of related party transactions.

Besides, there are issues that involve group relief and its tax benefits; Company law and its influences on financial reporting and the role of management accounting. These are now examined in turn.

- **Group relief and tax benefits**

  Group relief has been the dominant mechanism in minimising tax expense in JV1 Ltd and thus aids the cash income of the JV1 Ltd. Across time, JV1 Ltd made use of the group relief granted under the UK tax regime. The scheme thus helps JV1 Ltd to maximise the tax benefits associated with the structure but in particular it privileges the equity capital provider as higher returns go to the equity capital holder. The literature on PPPs in general has been concerned that groups of companies minimise their tax obligations to the benefit of the private sector (Shaoul et al., 2008b). Also, as observed in the literature:

> Companies have a degree of flexibility and scope to manipulate how they account for income and expenditure, profits and losses and taxation between SPVs, subsidiaries and parent companies. This leads to a degree of understating and overstating profits and losses to achieve performance and taxation objectives (Whitfield, 2011:9).

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\(^{37}\) Freedom of Information (FoI) Act 2000
While the JV1 reporting of the LIFT scheme thus far discussed provides further evidence of this, it also shows the multiplicity of interpretive schemas available to the JV1 group Ltd with a consequence of uncertainty around reporting in the JV1 scheme.

- **Company law and financial reporting in the JV1 scheme**

In the various financial reports of JV1 Ltd and its subsidiaries, directors acknowledge their commitment and responsibilities as preparers of financial reports under the Companies Act. Note however that under the company law, directors’ discretion is warranted as is acknowledged in JV1 group’s directors’ report. The reports state that:

> ‘In preparing these financial statements, the directors are required inter alia to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. And also to ensure that the financial statements comply with the Companies Act’ (Annual reports (various years)).

At least three issues flow from the above and are explained in interview and notes to the various annual accounts. The first is that the directors of JV1 group Ltd are warranted a power of discretion over financial reporting from the Companies Act. The second is that their financial reports disclose the information that directors find prudent and perhaps minimum about their assets, liabilities, capital, income and expenses as required by the Companies Act (1985, 2006). The third is that preparation of financial reports by directors in the JV1 scheme involves directors’ conscious application of their knowledge of their responsibilities under the Companies Act.

Taking the three issues together, it is difficult to rely upon the financial reports, especially as the outcomes are not necessarily objective and neutral, despite the NPM-inspired belief that financial reporting is objective and neutral (see Hood, 1991; 1995; Lynn, 1998) and therefore could be relied upon as given. However, given that there is discretion over reporting, minimum reporting, lack of detail and directors’ conscious application of their knowledge, the reporting cannot be regarded as objective. This view is widely acknowledged in the literature. Shaoul *et al.* (2008a) have noted the manner by which the
Companies Act has been drawn on by directors to provide minimum information on PPP transactions. Also worth noting with concern is that under JV1 group Ltd and by extension, LIFT, the application of Companies Act takes NPM to another level where the Company Act requirements rather obfuscate financial reporting.

Note however that this does not appear to be a concern in JV1 group Ltd because of the company’s good performance as a public sector director (D1c) emphasized in an interview\(^\text{38}\):

> ‘Whether you could say do we need to report more frequently, so from limited company right through to full public awareness of, we could debate that. But on the basis our LIFT Company is performing, it's financially sound and viable and we're talking about how we further develop it and take it forward in light of it perhaps not having the same market and calls upon it as it has done previously, but there may be new opportunities because we know where our estates will be in future in terms of the NHS. So we're looking at that, and already aware of those sort of things. But we've had no reason so far to highlight any exceptional circumstances of a financial nature to our board and to keep reporting that things are on track and on plan and so on’.

Despite the above claim of confidence in the financial reporting, directors in the JV1 scheme have conceded that management accounting has been a necessary complement to financial reporting. Though, this is not necessarily surprising as directors normally use management accounting as a management tool, there are some issues that need to be noted in this circumstances because of their accountability implications.

- **The role of management accounting**

The JV1 scheme directors have also relied on detailed management accounting information. As a director (D1d) insists:

> ‘The management accounts that are presented to JV1 Project board, on which PCT representatives sit, are, I think, quite thorough. And anything that is asked for is always provided’.

Given that management accounts are for internal management usage, they are not available to the public. Therefore, for them to perform any supplementary role they would need to be

\(^{38}\) D1b and D1d agreed strongly with D1c on this observation.
reported back through the publicly reported information. But as acknowledged by the director, the information in the management account is only reported back through the public reporting system when there is an issue. There is thus exception reporting which may not be sufficient because not everyone has access to the management accounting. Key stakeholders such as UNISON who would require adequate information for the purposes of policy debate may be handicapped. In addition, public accountability on the ground of public access to information may not be served given that the FoI, for reasons of commercial interests and confidentiality, allows organizations not to disclose some information as has happened in this study and other studies (e.g. Shaoul et al., 2008a; 2010).

- **The role of the private advisor**

In the JV1 scheme, not only do private advisors play a role in the setting up of the scheme, they also play a role in accounting for the accounting related activities of the scheme. This was made clear in an interview with an advisor (A1), who is an accountant from one of the accounting firms in UK has been actively involved with the setting up of the JV1 group. Also, this advisor has been actively involved with the financial reporting issues in the JV1 group because during the interview most of the accounting related issues were referred to him. This reinforces the findings in (Shaoul, 2011; Shaoul et al., 2007a) that the private sector advisors, including the accounting profession are deeply involved in the implementation of the PPP policy.

**6.4.5: Financial Reporting of the Two PCTs as it Relates to the JV1 Scheme.**

This subsection examines the financial reporting by the two PCTs referred to as PCT 1 and PCT 2 in the case, both of which are public sector shareholders of JV1 group Ltd, but are also tenants of the buildings provided by the JV1 group Ltd. Therefore, in terms of financial accountability, the analyses cover these two relationships. The two PCTs’ financial accountability of their relationship with JV1 varies in many respects but in both the change to IFRS in 2009 has been a significant shift in the way the shareholder and tenant relationships with JV1 group Ltd are accounted for.
Prior to 2009, both PCT1 and PCT2’s interest in JV1 group as a shareholder was reported as an investment in the balance sheet and the rental payments were part of the profit and loss as expenses. In both the balance sheet and the profit and loss accounts, these items are aggregated with others and therefore it is impossible to identify in particular, the cost of LIFT and its impact on affordability in comparison to for example PFI.

Post 2009 the two PCTs report their relationship with JV1 group Ltd as tenants, under a finance lease obligation (IAS 17 Accounting for Lease). By this, they become lessees but as shareholders, they become lessors as well.

Accounting by lessees:

The following principles should be applied in the financial statements of lessees:

- At commencement of the lease term, finance leases should be recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the entity's incremental borrowing rate) (IAS 17, paragraph 20).

- Finance lease payments should be apportioned between the finance charge and the reduction of the outstanding liability (the finance charge to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability (IAS 17, paragraph 25).

- The depreciation policy for assets held under finance leases should be consistent with that for owned assets. If there is no reasonable certainty that the lessee will obtain ownership at the end of the lease – the asset should be depreciated over the shorter of the lease term or the life of the asset (IAS 17, paragraph 27).

Accounting by lessors:

The following principles should be applied in the financial statements of lessors:
• At commencement of the lease term, the lessor should record a finance lease in the balance sheet as a receivable, at an amount equal to the net investment in the lease (IAS 17, paragraph 36).

• The lessor should recognise finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease (IAS 17, paragraph 39).

When the assets come into use, as lessees, both PCT1 and PCT2 report their fair value of the assets as plant, property and equipment in the balance sheet. Liability is recognised at the same time as the asset is recognised. The assets are depreciated and the liability is reduced by the annual capital repayment but the interest payments as well as the costs of any services received under the lease are reported under operating expenses. As a lessor, the amounts due from lessees under finance leases are recorded as receivables at the amount of the PCT’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the PCT’s net investment outstanding in respect of the leases. While these details are provided in the notes to the accounts it is very difficult to ascertain the specific interest and service charges apart from the purchase and sale of financial instruments in LIFT, loans made and repaid in respect of LIFT and the capital repayment component in respect of LIFT. It is noteworthy however that the capital repayment is aggregated with other payments.

The processes of change in accounting practices in the PCTs are indicative of the duality of structure, a central theme of the structuration theory. In communicating more about the accounting change and by referring to the change with more concern, these directors in turn become more concerned about issues around the IFRS and its implication for financial accountability, they thus construct reality through human agent-structure interplay. An observation by an executive of one of the PCTs (D1b) in an interview makes this human agency-structure interplay apparent:

‘Our reporting has changed for many reasons. We need to look at what has happened around IFRS and LIFTco on balance sheet. How am I going to cover over £2million is suddenly a cost I didn’t use to have because we used to account for it differently. So from that point of view reporting has been a issue for our board because LIFT has had a direct impact on our bottom line and has brought serious grey matter to it over a period of time as to how we deal with that’.
He adds that reporting has been amended and is considered to work well.

‘I think at the start we set out what the reporting requirements we expected. I think they've been fully met with. They have been tweaked and amended as we've better understood and gone forward. And I think the example I gave you earlier around how we've challenged the level of cash balances being held and how we might reinvest. So, in a sense, I think there's been quite a bit of delving into the accounts and sort of challenge and understanding and amendment to them as we've gone on. But I think we have got a reporting system that is robust, is informative and does allow that challenge to happen and for us to understand what the overall position is. I'm quite comfortable with. In some ways I wish we had as good a reporting in some of the areas which have to account as we do on LIFTCo, to be honest. And I think we could use LIFTCo in many ways as perhaps we go more towards a commercial way of doing things than we have done in the NHS previously, we could use the LIFTCo accounts as perhaps the basis to help the new forum what we need to consider doing in the NHS’.

Of particular concern however is, as shown in relation to the second case, while the PCTs use IFRSs, the private sector partners use FRSs. Therefore, as Shaoul et al. (2010) have noted, with no requirement for symmetry under FRS accounting, it is impossible to reconcile their related transactions.

The JV1 case thus far shows that corporate structure of the LIFT scheme is very complex and complicated that the joint venture mechanism cannot be relied upon to deliver transparency of reporting. The JV1 case shows further evidence that the LIFT scheme is substantially debt driven. It also shows that the JV1 Ltd and the fundcos, as limited companies, follow private sector accounting regulations and Company Law and therefore disclose minimal information to the general public. Moreover, it shows that there was considerable inconsistency in the reporting due to both changes in accounting regulations and changes in organisational structure and interpretive schemas throughout the period. It shows that LIFT financial reporting involves what the study could describe as the primacy of finance capital. Further, it shows that there is lack of continuity of public sector oversight and monitoring as the SPB, in practice, restricts its activities to pre-operational phase and limited oversight after construction phases. Furthermore, it shows that partnership working is very difficult in the context of profit seeking under the LIFT structure and that partnership working and success of the LIFT scheme may depend on trust, key personalities working together. Its governance is controlled by the private sector directors whose powers are facilitated by both allocative and authoritative resources.
Altogether, the principles implied in LIFT as a policy are not always evident in practice. The study now explores further evidence of these findings in a second case.

6.5 The JV2 Case

6.5.1 Introduction

The JV2 case is the second of the two cases chosen for the study. As the purpose, key messages and approach and much background detail were discussed in relation to the first case, this section focuses on drawing out differences in relation to JV2. A major difference is that the private sector partner in the JV2 scheme has no charitable ethos. Another major difference is that unlike JV1 where officials were disposed to be helpful, it was not possible to obtain as many interviews, and indeed, the private sector partner refused to participate. One interview with two senior public officials involved with the JV2 case had to be replaced by a structured questionnaire.

6.5.2 The Corporate Structure of the JV2 Scheme

A graphical illustration of the JV2 scheme’s corporate structure is presented in Figure 6.6. This subsection describes the corporate structure of the JV2 scheme. The aim is to reinforce that the LIFT scheme typically involves elongated and complex organising elements and again, contrast with the simplified structure suggested in some government reports.
Figure 6.6: The JV2 scheme’s corporate structure

- InfraCo Ltd
- BanCo Ltd
- PP2 Holdings Ltd
- Department of Health
- LIFT A
- LIFT B
- LIFT C
- LIFT D
- LIFT E
- Strategic Partnership Board
- PP2 Ltd
- CHP
- JV2 Ltd LIFTCo
- Holdco 1
- Holdco 2
- Holdco 3
- Fundco 1
- Fundco 2
- Fundco 3
- Bank
- Subcontractors

Tenants and Lease Plus Agreement; Oversight by public sector; Ownership and control; Strategic Partnership Agreement
Debt interests and bullet payments Subcontracting

(Source: Annual reports and accounts (various years); Trust Board Meeting Agenda).

39 A clarification was sought about this structure form Q2a and Q2b.
The JV2 scheme is located in a relatively urban community. It has been in existence since early 2003 and is one of the first wave schemes. The equity capital shareholding arrangement is the same as in the first case’s LIFT Company except that in this case the local public sector shareholders are three PCTs: A, B and C and in addition, there are three LAs: X, Y, Z.

Therefore, under the JV2 scheme, not only is there a sectoral partnership working between the private and public sectors, but there is also, a departmental partnership between PCTs and LAs. While by involving the three LAs, the JV2 scheme achieves a policy objective of crossing departmental boundaries for strategic partnership working purposes (Beck et al., 2010; NAO, 2005; NHS Plan, 2000; Rassell, 2008; Treasury, 2003; 2010a), it adds another layer to JV2’s corporate structure.

In the JV2 scheme, the ownership of PP2 Ltd which is the private sector partner, presents a noteworthy contrast to PP1 in the JV1 scheme that needs to be highlighted. Unlike PP1, which is a relatively local and small construction and facilities management company and owned by a local construction and facilities management company, PP2’s equity capital shareholding is owned by a holding company described in Figure 6.7 as PP2 holdings Ltd. PP2 Ltd and PP2 holdings Ltd are respectively described in the various directors’ reports:

‘The Company (PP2 Ltd) is a wholly owned subsidiary of PP2 holdings Ltd, which is jointly owned and controlled by InfraCo and BanCo’.

‘The Company (PP2 holdings Ltd is jointly owned and controlled by InfraCo and BanCo, and therefore has no parent or ultimate parent undertaking’.

Both InfraCo and BanCo are big players in their respective business sectors. InfraCo is a big player in the construction industry. It has presence internationally and has a history in the construction of huge public projects that can be traced back over 150 years. BanCo is a big player in the financial sector. It is a wholly owned subsidiary of a major bank in the UK and specialises in investments in infrastructure.

\footnote{The PCTs were initially at the start of the JV2 scheme six but have now been merged into three so that for each LA, there is one PCT as respondents explained in interview.}
Also, as shown in Figure 6.7, PP2 is involved with five other LIFT schemes: LIFTs A, B, C, D and E. It is the case that private sector partners in LIFT are always likely to join other schemes and this shows how the LIFT structures can see continuous extensions and additional layers and more complexities. A major consequence of these increasing complexities is that financial accountability and governance practices may be become more complicated.

Whereas respondents from the JV1 scheme confirmed that JV1 Ltd has an exclusive right to develop PCT buildings up to 30 years, conflicting positions were described by interviewees and questionnaire respondents, suggesting that the JV2 scheme is not clear cut.

One public sector interviewee (D2a), suggested that there are some exclusive rights relating to some aspects of the JV2 scheme but these may not be universal. Even though it would be unusual for a public body to get out of a contractual liability by changing its form this public sector director adds that as the NHS undergoes constant change, the PCTs who signed exclusive right would not exist in the future to follow through the exclusive right arrangements:

‘Well, the PCTs who had the exclusivity agreement won’t exist anymore, will they, so I suppose that gets them out of that. Whether that will innovate to the new organisations or not, I am not very clear about. But for the local authority, our exclusivity was only to do with buildings that delivered health services, so it was a different kind of experience for us. So we kind of didn’t have that exclusive agreement anyway. But I think one of the things was that I don’t think that some of the PCTs understood what they were signing up to once they’d signed that agreement. And I think that will be where it’s still in place, the big issue under whatever new arrangements happen’.

Moreover, there is a Trust Board meeting agenda item no. 10 in relation to the JV2 scheme that suggests that participating partners have resolved to remove any exclusive right from the JV2 scheme. Included in a Trust Board meeting agenda item no. 10, page 16 is:

‘After discussions with all the relevant PCT’s and CHP, it was decided that steps would be taken so that, in each LIFT area (in summary): Liftco would no longer have the exclusive rights granted under the strategic partnering agreement (SPA), including no longer having the right to develop future projects or to provide partnering services in relation to developing new projects for those PCT(s); Liftco would: (i) continue to carry out its obligations (including partnering services) in relation to existing developments and
obligations; and (ii) continue to fulfill its commitments in relation to developments already in the pipeline’.

There is a suggestion that the above proposal has been implemented as a public sector director (Q2a) and a senior public sector official (Q2b) told the study that in the JV2 scheme exclusive right does not exist for JV2 Ltd:

‘The exclusive rights of a LIFT Company to deliver a succession of small PCT buildings over 20-30 years is not quite how JV2 Ltd worked under the JV2 scheme’.

Despite the seeming lack of exclusivity right in the JV2 scheme, JV2 Ltd has been able to exclusively41 deliver a succession of small, discrete but community-based PCT building projects and in the process, is able to spread its initial set up, bidding and transaction costs over time and across several but discrete projects. To be able to deliver these successive discrete projects, as in the JV1 scheme, JV2 Ltd has over the years, required discrete debt funding, having had to set up a number of subsidiary companies to hold the funds. Again, as in the JV1 group Ltd, these subsidiary companies hold debt funds which are ringfenced so that returns accrued to such companies are appropriated accordingly to the debt fund providers.

In contrast to JV1 Ltd, JV2 Ltd has been set up from the start with a holding company for each of the fundcos. In an agenda item of a board meeting of a participating PCT, it is shown that the JV2 Ltd has three holding companies, and therefore three fundcos. However, a further search at Companies House has shown that the third holding company and third fundco are yet to file any financial reports. There is therefore hardly any information on the third holding company and the fundco except that both were set up for a joint service centre which reached a financial closure in September, 2010.

41 There is no other LIFT Company in the area that the JV2 scheme is located.
6.5.3 JV2 Group’s Capital Structure

Table 6.4: Capital structure of the JV2 group Ltd

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<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<td>2</td>
<td>23</td>
<td>1,400</td>
<td>179</td>
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<td>Equity</td>
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<td>Debt</td>
<td>11,261</td>
<td>31,237</td>
<td>46,252</td>
<td>47,786</td>
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<td>Debt</td>
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<tr>
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</table>

(Sources: Annual reports and accounts (various years)

The equity capital for the group has remained constant at £9,000 over the years. However, the debt capital increases in different years. Fundco 1 increases over the years except in 2010 when there is a marginal decrease. Also, a new tranche of debt: fundco 2 was required in 2007 and it also increases in different years. Consequently, the debt capital has grown from about £11million to about £92million. This gives the JV2 group Ltd a highly geared character which is the same as the JV1 group Ltd. The replication of the highly geared character in the JV2 group Ltd reinforces an observation that the LIFT scheme is debt driven as are all PPPs (Aldred, 2006; Asenova and Beck, 2010; Beck et al. 2010; Shaoul et al. 2008b; Whitfield, 2010). Without debt, it would be impossible to see new projects coming on board. That reaffirms a view that providers of debt capital have substantial allocative resources.
Again, each fundco represents a number of projects, and as no reference is made in the annual financial reports to the specific projects, one cannot rely on the financial reports to match projects with their relevant debts. One would have to rely on internal management reports and/or financing contracts in order to match debt with specific projects. So again, there are implications for public accountability.

The debt capital of the group is now described in detail.

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<th>2005</th>
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<tr>
<td>JV2 Ltd loan</td>
<td></td>
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<tr>
<td>PP2 Ltd loan</td>
<td></td>
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<tr>
<td>Total loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall total debt</td>
<td>11,261</td>
<td>31,239</td>
<td>59,853</td>
<td>77,822</td>
<td>91,949</td>
<td>91,068</td>
<td>92,018</td>
</tr>
</tbody>
</table>

(Sources: Annual reports and accounts (various years)

42 These are described as amounts owed to group undertakings and contributed by shareholders of JV2 Ltd. These are the same as those described in the JV1 scheme as subsidiary undertakings.
As shown in Table 6.5 the debt capital in the JV2 group Ltd consists of bank loan, subordinate debt, mezzanine debt, LIFT Company loans to fundcos and PP2 loans to fundcos.

The bank loan as in the JV1 case, is a senior loan which gets priority when it comes to payment of interest and principal. It is provided by BanCo’s parent company, which thus has allocative resources, the power to increase or decrease the flow of debt capital funding in the JV2 group Ltd. Note that BanCo is one of the two shareholders of PP2 holdings Ltd, the parent company of PP2 Ltd, the private partner of the LIFT Company, JV2 Ltd.

Both InfraCo and BanCo, as shareholders in PP2 Holdings Ltd, PP2 Ltd and JV2 Ltd have authoritative resources. That is, as shareholders they are facilitated by their equity capital to co-constitute the board of directors and therefore share the power to coordinate and govern the day-to-day activities and decisions in these companies and in all relevant subsidiaries. Therefore, while the bank has allocative resources, its wholly owned subsidiary, BanCo shares the authoritative resources with InfraCo.

The subordinate debt and mezzanine debt are provided by the three PCTs, CHP and the private sector partner (PP2 Ltd). The subordinate debt is given second priority in the payment of interest and principal and the mezzanine debt is given a third priority. Even though the bank that provides the senior loan does not directly contribute to either the subordinate or mezzanine debts, it does contribute indirectly through the private partner organisation (PP2). The LIFT Company loan is provided by JV2 Ltd. The private sector partner contributes other loans: PP2 loans.

The practice whereby shareholders choose to contribute to the debt stock instead of the equity capital shareholding is typical in the LIFT scheme as in both the JV1 and JV2 schemes, the shareholders’ contribution to debt is much bigger relative to the equity contribution. In summary, equity capital shareholding in the LIFT tends to be small relative to the debt capital.

However, despite the small size of equity capital in the capital structure, JV2 Ltd as well as its subsidiary companies are equity capital shareholding companies. The equity capital in these companies has been influential in the financial accountability and governance
practices for a number of reasons. The most fundamental of these reasons is that, it makes the need to make profit a very crucial signification structure. While the need to make profit has always been the desire of shareholders, it is very important to emphasise that the JV2 group Ltd, just like the JV1 group Ltd, is set up deliberately in this way.

As a public sector director (D2a) admitted in interview:

‘I think we were shareholders because we had to be because that was the only way we could do it. And really it was a vehicle’.

Each fundco has had to be a Shareholding Company and ringfenced as a separate legal entity. Public sector interviewees’ (Q2a and Q2b) comment on this arrangement is that:

‘Ringfenced batches of schemes with legal protections sat around them’.

Also, for each fundco, there has had to be a holding company described by these public sector directors (Q2a and Q2b):

‘To isolate risk and protect investments within each financial close grouping of schemes and hence each fundco’.

Accordingly, the equity capital shareholding in the JV2 case has been a major source of meaning, purpose, legitimation and power in the financial accountability and governance practices. The governance practices are now explored.

6.6 Governance in the JV2 Group Ltd

Board minutes confirm the position in JV1 Ltd that the board of directors play a very prominent governance role. As it is stated:

‘The future of the Strategic Partnering Board (SPB), which on LIFT schemes, amongst other things, provides strategic input into the Strategic Partnering Agreement (SPA) would be restricted to existing and pipeline schemes’ (Trust Board Meeting Agenda Item no. 10, May, 2010, page 6).
As in the JV1 scheme, there is private sector director dominance over governance in the JV2 scheme. However, unlike JV1, this appears to concern some public sector directors. One instance of the ways in which the public sector directors have been concerned is the ramifications of the differences in proportion of equity capital shareholding in the day-to-day functioning of the board of directors in JV2 group Ltd. It appears that because the public sector participants have a relatively small percentage of the equity capital shareholding, it becomes very difficult and perhaps impossible to achieve a balance of benefits of the JV2 scheme. As a public sector director (D2a) in interview lamented:

‘The difference in proportion of the shares did reflect in the business that was done at the LIFT Co Board meetings. For example, the NHS in totality had a small share and therefore one representative on the Board and this made it often difficult to be able to get the balance of priorities to the NHS given the buildings were for the NHS and Local Authority and patient services were to be delivered out of them’.

This raises issues with imbalance of power that results from the equity-split in LIFT. Here is a case whereby the 20% equity capital shareholding for local public sector shareholders is spread thinly for three LAs and three PCTs and consequently dilutes the individual local public sector shareholders’ power on the board of directors. An interviewee (D2a) who commented on the equity capital split, submitted:

‘So as an individual shareholder it (referring to the 20% equity capital shareholding for local public sector participants) didn’t really have that much meaning, I think it was just purely a vehicle’.

One of the common means of deciding on issues in board meetings is voting on the basis of a share in equity capital shareholding. Therefore, if voting was ever used it might mean that the minority local public sector shareholders might be disadvantaged. An interviewee’s (D2a) response to a question on voting in board meeting can perhaps be useful here. She has the following to say:

‘I don't think we ever had to vote actually. I don't think we ever came to a vote on anything. I don't know what would have happened if we did because it was one of those things that was best avoided’.

A number of factors that came across in interviews as very fundamental in the workings of the board of directors, cannot be captured in formal structures of LIFT. They are informal structures (cf. Wang and Ahmed, 2002) and include the personalities of the private sector
directors, leadership of the public sector and the corporate culture of the private sector organisation. For one interview respondent, a mixture of these can be blamed for the boardroom tensions and the dominance of the private sector directors in the JV2 scheme. This respondent says:

‘The power dynamic from the Board really comes from the private partners. There is a very effective non-executive Chair, however, the private sector partner has been in charge, the NHS has a limited power as does the Local Authority. I think this is partially because of the performance of the NHS across X, Y and Z (pseudonyms for the three LAs, for each of these LAs, there is one PCT, A, B and C in X, Y, and Z LA areas respectively) over the years has not been highly effective and therefore a number of the delays in delivering schemes etc have been the fault of the NHS. However, I do not believe the NHS is an effective partner and I do not consider this as an equal relationship’.

Further, and related to the above, a willingness from key leaders in the public sector side of the board to stand up to the private sector directors was identified, in the words of the above respondent, as hugely important to secure balance of priority. This, it is identified, requires a strong good local leadership from the public sector. Strong leadership is explained as involving human agent’s ability to capture benefits. As this respondent observes:

‘In who got the most out of the actual LIFT program out of those three partners, I’d say X (pseudonym for one of the local public sector partners) by a long way. And I think what made the difference for X was very strong, very good leadership at the top of their PCT (ie PCT A in LA area X), you know. I think their PCT (ie A) were way more pragmatic than the one in Y was and actually thought well if this is the only show in town, we’re going to get everything out of it we possibly can and really went for it. And they’ve got some fantastic buildings in X (which are for PCT A), you know, really beautiful buildings that function amazingly well. And to me that was how they did it because of the very - because the local leadership was very strong’ (D2a).

It was made clear in the interview for this study by a public sector director (D2a) that experience in capital project delivery is another factor that is necessary in order for the public sector partners to benefit from the LIFT scheme. LA Y lacked such experience and consequently as this director (D2a) submitted LIFT was a lost opportunity for Y. She observed:

‘And I think part of that was the inability of our local PCT (B) to really understand any kind of capital strategy, you know, any kind of property strategy at all really because it’s quite a new thing for them and I don’t think they had the expertise to be able to do it’.
In addition, the fact that under the JV2 scheme there were so many local public sector partners was a concern for some. It was noted that having one or two local public sector partners as in the JV1 scheme would have made it easier, ‘you haven’t got a cast of thousands that changes at every meeting, you know’, as one public director (D2a) in interview emphasised. This respondent added that:

‘I think that where they have - with three very disciplined authorities, although do work well together in other formats, I just think that the mix of local authorities and the PCTs and on the first set-out on LIFT, we’d got three PCTs in Y. So you originally started out with two in Z, one in X and three in Y, so we’d got six PCTs and three local authorities. And, with hindsight, that is not a great plan, you know.

So I think where it has worked best, from what I can see, is where you’ve got maybe one or two PCTs and one or two local authorities whose boundaries are co-terminates, that’s worked much better and consistent as well, which I think is one of the other reasons that X did much better because their PCT was - had consistent leadership and consistent boundaries (ie. One PCT) all the way through the process, whereas in Y we had three PCTs merged into one and Z had two PCTs merged into one. So I think that the lack of stability in that actually affected the ability to work properly’.

Moreover, an interviewee was concerned that representatives of the InfraCo, the main company that they were dealing with, were the problem. This director wondered at the different ways in which the private sector can operate. InfraCo was a contractor that one of the public sector partners worked with on other projects, which was done in the words of one director, ‘the old-fashioned way that is we pay you, you build us a school’ without the problems now faced in the JV2 scheme. This, the interviewee (D2a) further explained:

‘And the relationship with InfraCo that we had in Building Schools for the Future and other projects that I’ve been involved with them in has been so different as when we would go, you know, to the LIFT company and they would say oh, well, you know, InfraCo won’t do this and won’t do that and there’s no point asking them that and I would say but, you know, if I ring up Mr. H (pseudonym) at InfraCo who’s building me a new school in my ward and ask him a question, he’ll tell me the answer. So are you saying that they changed personalities because you’re dealing with them? And, you know, that I found very difficult. There was a lot of protectionism and there was a lot of - well, a lack of transparency really about their dealings. And I think they genuinely had problems dealing with InfraCo and I could never get to the bottom of it because I don’t understand how. Company cultures don’t really vary. So if they have one - if they deal with the city council in one way, I can’t imagine that they would be hugely different with their other clients. You know, there might be tensions or whatever for whatever reason, but they wouldn’t be completely different. So I did find that quite difficult’.

43 Note that this explanation has not been corroborated by any official from InfraCo
Again, this interviewee described working with their private sector colleagues on the board as quite frustrating, lacking openness, full of mistrust, anti-partnership. This interviewee expresses her frustration with the private partners in the following ways:

‘It was quite a frustrating experience, I think, and I know that not all LIFT partnerships work in the same way. But ours very often didn't feel like a genuine partnership arrangement. I don't know if you found this with some of the other organisations you've spoken to, but it was quite a strange experience in some way because it was very commercially focused and I've been involved in a lot of partnerships which have been commercially focused, but have still managed to get some kind of partnership feel about them, whereas we spent quite a lot of time on what to me seemed like very minor issues that really didn't help the partnership working, you know, and felt quite confrontational a lot of the time, and it was very difficult in terms of the finances to get the private half of the public/private partnership to be transparent. So very often when we were questioning costs, it was very, very difficult to get to an explanation of why their costs were high if we felt the costs were high. It was quite difficult to get them to be completely open with us, whereas in some of the other partnership arrangements I've been involved in, there's been much more openness around the arrangements, you know, and how - people have been fairly honest about a lot of the costs because it's a partnership and so we work together. And that was quite frustrating, I felt’.

This interviewee re-emphasises that:

‘So there seemed to be an unwillingness to explain some of their finances in order... Whereas what we were trying to do was to say well if you're really saying it's that much, and it seems like a ridiculous amount, we need to understand why and we need to know what we're getting and we need to be able to work that through with you. And it didn't seem - it was a bit more of well, this is our price, sorry’.

This is symptomatic of a deeper problem at contract management level of a lack of discussion and partnership taking place. NAO (2009a:20) identifies four key factors that create an effective partnership. These are: (1) aligned interests (2) spirit of co-operation (3) clear understanding of roles and responsibilities under a contract and (4) satisfaction with remuneration. While some interview respondents from the public sector find no issue with the fourth, they have issues with the rest. Regarding the first, a respondent commented that, it was claimed in the SPA, but added that it is not always the case in practice. In respect of the second, a respondent stated that it is difficult to enforce unless tied down contractually and legally. For the third, a respondent confirmed that directors from both sides fully understood it but often used it as an obstacle to developing future projects. Also, Klijn (2009) has recommended that partners need (1) joint processing of problems and solution specification (2) to establish effective rules for interaction to create commitment and (3) to
emphasise joint realisation of objectives. However, public sector respondents (Q2a and Q2b) admitted that these three happen only in some areas. But one interviewee from the public sector (D2a) made the following observation:

‘I can see how it could work. And I think that if we'd genuinely done that, we would have ended up with much better results than we did, because even with three different authorities in one LIFT, we didn't really have that kind of sharing relationship about what we did within our own company. So I think - but I've seen some very good examples outside of that where people have used LIFT to achieve really great things. So I think that kind of sharing of information and the idea that you become a partner who didn't just deal with, you know, your particular area should have worked and didn't. But I think - and I think it did perhaps work in other areas, but I really think that there was a lot of benefit in that thinking’.

Another instance of the way in which the JV2 scheme has contributed to conflicts of interest and as a consequence, led to undermining partnership working is the dual role of the private sector partner in the JV2 scheme. As PP2 Ltd performs facilities management role for all the subsidiary companies of JV2 Ltd for annual fees, PP2 is both a shareholder and a facilities manager in the JV2 scheme. This is one of the common features of the LIFT scheme as in the first case, PP1 Ltd is both a shareholder and subcontractor via its sister companies doing constructing and maintaining facilities under the JV1 scheme. The concern with this sort of arrangement is that it could be duplicitous, as it could be another source of conflicts of interests, with some dire implications for governance as it could undermine partnership working.

Thus far, the public sector directors’ description of the workings of the board of directors in interview shows a lack of trust in the private sector directors’ control over governance. One issue that is apparent in the character of the governance described above is the fiduciary duty of the private sector directors, the commercial interest. Public sector directors have been emphatic in their view that private sector directors have focused too much on profit and return on investment. They are concerned that there are conflicts between profit making, rental charges and responsibilities of board of directors which they admitted are very difficult to solve because of the desire from the private sector to protect investor interests.

It can thus be said that partnership working is very difficult in the context of profit seeking under the LIFT structure.
Also, as in the first case, there is lack of continuity of public sector oversight and monitoring as the SPB, in practice, restricts its activities to pre-operational phase and limited oversight after construction phases.

The fiduciary duties of directors in the JV2 scheme and the accompanying finance-based reporting are similar to those in the JV1 scheme. In each case, directors have interacted recursively with structures such as profit making, equity capital shareholding, shareholders, bank, Companies Act and via modalities including, tax shield and tax relief. Fiduciary responsibility and financial reporting are characterised by the same meaning, purpose, legitimation and power. However, there are some specific issues in terms of presentation of accounts and application of accounting standards that are quite different from the JV1 case that are now examined.

### 6.7 Accounting and Financial Reporting in the JV2 Scheme

This section examines the non-consolidation policy in the JV2 scheme with the focus being on PP2 Ltd and JV2 Ltd. The aim is to reveal how the consolidation policies of these two parent companies differ from those of PP1 Ltd and JV1 Ltd in the JV1 scheme. It also shows how an interaction between the elongated structure of the JV2 scheme and the accounting standards and directors’ human agency is involved in the non-consolidation practices of these two parent organizations.

JV2 Ltd is a parent company of a number of subsidiaries and could be expected to consolidate them in its group’s financial reporting. However, in JV2 group Ltd, subsidiaries have never been consolidated. Given that both cases are about a similar model, the disconnectedness and inconsistency in the consolidation policies are a concern. The following paragraphs explore the reasons and implications of the non-consolidation policy in the JV2 scheme.

Under FRS 2 Accounting for Subsidiary Undertakings, a parent is not required to (but may) present consolidated financial statements if any of the following applies:

- Its group is small or medium-sized and not an ineligible group as defined in section 248. A group is ineligible if any of its members is a public company, a banking
institution, an insurance company or an authorized person under the Financial Services Act 1986.

- It is a wholly owned or majority-owned subsidiary undertaking and its immediate parent undertaking is established under the law of a member state of the European Community. Exemption is conditional on compliance with certain further conditions in section 228. A parent undertaking is not exempt if any of its securities is listed on a stock exchange in any European Community Country.

- All of its subsidiary undertakings are permitted or required to be excluded from consolidation by section 229. For example, interest held exclusively with a view to subsequent resale within one year.

Also, under IAS 27 Consolidated and Separate Financial Statements (an international equivalence of FRS 2), a parent is not required to (but may) present consolidated financial statements if and only if all of the following four conditions are met (IAS 27.10):

- The parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

- The parent's debt or equity instruments are not traded in a public market;

- The parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

- The ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.
The reason for the non-consolidation practice of JV2 Ltd is that it is not the ultimate parent. However, its parent company, PP2 Ltd has also never consolidated its financial reports. In both instances, directors draw on exemptions under the accounting standards (FRS 2 Accounting for subsidiary undertakings). In the financial reports, directors have specifically indicated the name and registered office of the ultimate parents where consolidated financial reports can be sourced.

Mindful of the various reasons and paradoxes associated with non-consolidation as described in the JV1 scheme, the non-consolidation practices in the JV2 scheme present some interesting issues. The practices show how the elongated structure and the accounting standards provide some modalities that can be drawn on by directors to inform their financial reporting practices. This is an interesting finding as the current state of the literature has focused on definitions around beneficial ownership and hiding of debt to evaluate consolidation and consolidation practices (see for eg. Baker, 2003; Clarke et al., 2003; Maine et al., 2003). The findings in the JV2 case suggest that in practice, accountants can draw on their interactions with the organising structures of their organisations and the exemptions under the accounting standards to avoid consolidation.

While the continuous non-consolidation in PP2 and JV2 may be a case of stability in practice, non-departure from routines, it is not without concerns. It does suggest lack of reflexivity on the part of directors. The fact that directors continue to use the same narrative, that is exemptions under FRS 2 that they are not the ultimate parents *inter alia*, to explain their reasons for non-consolidation in the notes to the financial reports shows that directors might have been comfortable with their routine non-consolidation practice. This may be a case of taken-for-grantedness, which the literature describes as unquestioned reproduction of practices (Englund et al., 2011). It is also possible that they are ontologically secured with such a practice. While it does not however mean that in the future, they will not depart and start to consolidate or to use different modalities to inform their practices, the current practice cannot be reasonable especially that both cases deal with the same model.

The differences between the two cases in terms of consolidation can be summarised as follows.
While JV1 case has changed its accounting policy, JV2 case has had a consistent accounting policy throughout. Prior to 2007 when PP1 Ltd in the JV1 case did not consolidate, the accounting treatment was the same as in PP2 Ltd in the JV2 case but for different reasons. While PP1 Ltd did not accept its LIFTCo: JV1 Ltd as either a joint venture or a subsidiary, PP2 Ltd did accept its LIFTCo: JV2 Ltd as a subsidiary but did not consolidate on the grounds that it was not the ultimate parent company. From 2007 when PP1 Ltd started consolidation, its accounting treatment of its LIFTCo was different for the reason that both PP1 Ltd and PP2 Ltd took different view of their LIFTCos. While PP1 Ltd now regards its LIFTCo as a joint venture and thus uses gross equity accounting, PP2 Ltd continues to regard them as subsidiaries but still not consolidating on the grounds of not being the ultimate parent.

Also, prior to 2009 when JV1 Ltd did not consolidate, the accounting treatment was the same as in JV2 Ltd but for different reasons. While JV1 Ltd has drawn on exemptions for small and medium group from consolidation under the Companies Act as narrative for non-consolidation, JV2 Ltd just as PP2 Ltd has drawn on the fact that it is not the ultimate parent company and could be exempted from consolidation under FRS 2. From 2009 JV1 Ltd, no longer qualified for exemptions for small and medium group under the Companies Act and accordingly started consolidation, JV2 remained consistent with its non-consolidation policy.

The differences in consolidation policy between JV1 and JV2 schemes show how different modalities are deployed by directors in the two cases to deal with LIFT.

Note however that and as in the first case, for tax purposes, both PP2 Ltd and JV2 Ltd and their subsidiaries are treated as a group and thus, are able to maximise the benefits of group tax relief under the British tax system.

Also, the participating PCTs in the JV2 scheme report their interests in the scheme on their balance sheets as is done by the PCTs in the JV1 scheme. However, it is important to note that a search from a list on the Treasury’s database suggests that not all PCTs report their interests in LIFT on their balance sheets (Treasury, 2012). Under the UK accounting regulations (UK GAAP) of the seventeen PCTs found on the list, none put its’ interests in
LIFT on its’ balance sheets and under the international regulations (IRFS), four out of the seventeen PCTs put their interests in LIFT off balance sheet.

Taken together, it can be regarded that the financial accountability and governance practices have some very important socio-technical and institutional characters that are explored in detail, in the next chapter.

### 6.8 Summary of Findings and Implications

This chapter set out to examine the major financial accounting and governance issues in LIFT through the examination of two cases. The key messages are summarised below.

Firstly, the two cases present LIFT as involving a complex organization form which contradicts the simpler presentations in the NAO’s widely cited report (NAO, 2005). The insights revealed in this regard are twofold. One is that LIFT is not simply, a grouping together of smaller projects as premised in some government reports (Treasury, 2003). The other is that the complex organization form adds some more interpretive schemes which means that directors can draw upon many different structures in their financial reporting and governance practices. This chapter is able to reveal this complexity by drawing on the various financial reports, an approach that is rarely deployed in the limited studies that have been conducted so far on LIFT.

Secondly, the chapter shows that while the UK government’s plan for LIFT emphasizes its equity capital shareholding character, it is evident in the two cases that LIFT is not equity capital shareholding driven but is substantially, a debt driven model. Both the JV1 and the JV2 groups are highly geared as their debt component in their capital structure is almost 100%. While this confirms findings from other studies such as Aldred (2006); Asenova and Beck (2010); Beck et al. (2010); Shaoul et al. (2008b); Whitfield (2010), it provides other insights. One of these is that despite, the small size of equity capital in both cases, it turns out to be very significant as it has contributed significantly to the sense of meaning, purpose, legitimation in the accountability and governance activities in both schemes. The other is that both the equity capital and debt driven characters provide respectively authoritative and allocative resources, sources of power for shareholders and finance capital in both cases.
Thirdly, there is a dominant control by the private sector directors over governance. The consequences of this include internalizing the interest of private sector and finance capital interest. In the JV1 case, the public sector directors appear to be pleased with the projects such that the private sector directors’ control over governance is not a concern to them. Also, these directors essentially draw on trust and their idiosyncratic relationships and other informal structures in their evaluation of the private sector control over governance. Of particular relevance, the PP1 Ltd’s involvement in charitable trust seems to have been relevant to the nature of the relationships between the partners. In the JV2 case, the public sector partners appear to be displeased with the private sector directors’ control over governance, citing lack of partnership, lack of trust and transparency as issues. Therefore, in both cases, informal structures appear to have played some important role in the day-to-day governance activities. These are informal structures described as *hidden energies* (Wang and Ahmed, 2002) within the LIFT set up which are not visually illustrated in the LIFT organisational chart. The presence of informal structures is that it would be unreasonable and simplistic to focus on formal structures and disregard informal structures in organisational analysis.

Fourthly, the chapter suggests that the LIFT scheme’s purpose, legitimacy and power contradict with the most traditional purposes, legitimacy and power in the organization context, health sector within which the LIFT scheme is located.

Fifthly, the chapter shows that while LIFT is part of NPM, the flexibility with which LIFT’s financial accountability and governance practices are conducted contradicts NPM’s technical posture of financial accountability and governance practices. Rather, it suggests that policy makers should consider the ways in which experts use the NPM-inspired private sector technologies especially the role of human agency, the financialisation norm and the relevance of both authoritative resources the private sector experts and the allocative resources of finance capital.

Sixthly, while the public sector is more likely to present its LIFT schemes on balance sheet, there is uncertainty in relation to the private sector partners. The issue with such a practice is lack of symmetry which can undermine any attempt to evaluate whether the accounting treatment accurately reflects the assets and liabilities of the state (Shaoul *et al.*, 2010).
Taken together, a question remains to be addressed.

_How can the financial accounting and governance issues be better explained using the social-institutional context of LIFT?_  

This question is explored in the next chapter which discusses the issues raised in this chapter using Giddens structuration theory.
Chapter Seven: Interpretation and Discussion of Cases

7.1 Introduction

7.1.1 Aims and Purposes
This current chapter extends the previous chapter by discussing and interpreting the findings from the two case studies of the LIFT scheme drawing on Giddens’ structuration theory as a sensitizing device. The broader aim of the chapter is to address: how the financial accountability and governance issues can be better explained using the socio-technical context of the LIFT scheme. This broad question is further addressed through a number of subsidiary questions as follows.

- What are the structures in financial accountability and governance in the LIFT scheme?
- Which human agents provide agency in financial accountability and governance in the LIFT scheme?
- Whether and in what ways structures and human agency in financial accountability and governance interact in the LIFT scheme and what the implications are.

7.1.2 Outline of the Chapter
The chapter proceeds as follows: Section 7.2 examines financial accountability and governance practices based on Giddens’ structuration theory, highlighting the signification, legitimation and domination structures. Section 7.3 examines contradictions and conflicts of interests due to structural contradictions whilst section 7.4 examines stability and dynamism in practice and presents financial accountability as an emergent action, which involves enactment, learning, improvisation and entanglement. Section 7.5 concludes.
7.2 Structuration Theory, Financial Accountability and Governance Practices in LIFT

Figure 7.1: Application of Giddens’ structuration theory

<table>
<thead>
<tr>
<th>Structure</th>
<th>Modality</th>
<th>Human Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signification: Profit and return to finance capital</td>
<td>Interpretive schemas examples: P/L, Balance Sheet, Cashflows, Ringfencing, Profit-centred reporting, FRS, IAS, IFRS, LIFT, bullet payments, tax shield, tax relief</td>
<td>Communication</td>
</tr>
<tr>
<td>Legitimation: Equity capital shareholding</td>
<td>Norms: Examples: Primacy of shareholder profit and control - financialisation Rentier income and excessive debt capital</td>
<td>Sanctions</td>
</tr>
<tr>
<td>Domination: Shareholders, Board of directors, bank</td>
<td>Facilities: Examples: Equity and debt capital, Board membership, Fiduciary and legal responsibilities Companies Act, Shareholder agreement</td>
<td>Power</td>
</tr>
</tbody>
</table>

Figure 7.1 summarises the application of Giddens’ structuration theory. In Figure 7.1 structures, namely signification, legitimation and domination, are considered as enabling and constraining, permitting and at the same time restricting certain ways of reporting and governing. Also, the structures are interconnected and interwoven, as each needs one another to have relevance. Further, the structures interplay with human agency as surely, human agency creates and reproduces structures in an ongoing and continuous process. But of significance is that structures and human agency do not have separate and independent existence but both represent two sides of a reality. This is because the structures that human agents draw on as media in the production and reproduction of practices are themselves the outcome of the human agents’ action. Therefore the findings in relation to the questions to be addressed in this chapter are inter-related.
Mindful of the above, the interpretations and discussions proceed by first, exploring the motivations behind the financial accountability practices in the two groups and the processes that are involved. The various sources of empirical data offer a number of reasons behind some major financial accountability and governance practices. The reasons are mostly thought-out along stakeholder lines. Participating partners from the private and public sector, (crossing sectoral and departmental boundaries), banks, shareholders, patients, doctors, investors and societal regeneration have all been mentioned in interviews, reports and commentaries.

However, these stakeholders, for the purposes of discussions, can be regarded essentially as three different groupings. One group consists of banks, investors, shareholders who are seen as wanting financial reports and the workings of the board of directors to answer specific concerns, in particular, the security of their interest: returns on investments. There are two other groups of stakeholders consisting of for example (1) doctors, patient group, taxpayer group and labour group and (2) PAC of the House of Commons, NAO. These are seen as needing information to enhance their understanding of the schemes and for purposes of public accountability.

As the reasons of wanting and needing information from organisations by stakeholders are not new, can we ignore them? And could the financial reports and the governance arrangements be conducted the way they are done irrespective of the organisation form? Was the equity capital shareholding character of the two schemes the catalyst for the way financial accountability and governance are organised? As a public sector director has indicated and agreed by others in an interview insists:

‘We are companies and should behave as one’

What is interesting with the two case study groups under discussion is that they are public-private organisations which could raise a further question: so why are they using what are widely held to be private sector technologies? One of the formal claims of NPM is that such private sector technologies are efficient (Lynn, 1998). Many discussions in the NPM literature both within and outside of accounting have raised issues with the efficiency

44 UNISON has been prominent in this, see for example, UNISON, 2003, 2007, Aldred, 2006. http://www.unison.org.uk/resources/docs_list.asp?k=Health%20Care accessed on 02.02.12
claim (eg. Ramo and Skalen, 2006). In such discussions many different perspectives have been used to explain the concerns with the efficiency claims attributed to the NPM-inspired private sector technologies. However, for this study, one possible explanation is that these private sector technologies can be introduced to the public sector but the structures of signification, legitimation and domination offered by Giddens’ structuration theory have to be worked on for these new technologies to be implemented. Details of these are now examined.

7.2.2 Signification Structures

Following structuration theory (Giddens, 1979; 1984 and 1993), signification structures concern how purpose and meaning and thus, sense making, are attributed to everyday financial accountability practices in both the case study groups. In these groups, profit and returns to shareholders and finance capital are examples of signification structures as for example, the plan that sets out this organisation form requires them to make profit (NHS Plan, 2000). The language of profit and financial return seeking provides the dominant impetuses and meaning system for action and interaction in both groups.

However, profit and returns for shareholders and finance capital are not independent of human agency. They interact dialectically and recursively to direct the manner in which for example losses and weak cashflows or profit and strong cashflows are interpreted and financial accounting is conducted. It can therefore be the case that in each of the two groups a board of directors is constituted to perform the human agency role in this interaction to effect the profit and return seeking requirements of both groups. Thus, the role of these directors is to internalise the aspirations of shareholders and finance capital. As the LIFT policy is for the private sector equity capital shareholding to hold majority representation on the board, sixty percent of the total membership of board of directors, a significant proportion of power lies with the private sector.

Directors in both case study groups are able to internalise these aspirations by drawing on the signification structures through what could be likened to Giddens’ notions of modalities, which he calls interpretive schemas (Giddens, 1984), to give meaning to their everyday financial accountability and oversight practices. Accordingly, these schemas help the directors and of particular relevance, the shareholders and the banks to interpret and
make sense of what has happened in the groups, evaluate actions and plan for the future. Lindholm and Neu (2006:10) describe interpretive schemes as:

‘Statements or opinions of how things are, statements describing the organisational reality’.

As it came across in interviews and in examining the annual reports for both case study groups, the interpretive schemas which could be identified as relevant in the two groups include: ringfencing, strong cashflows, financial excellence, sound commercial managerialism, profit and loss accounts, balance sheet, finance-based reporting, the LIFT organisation structure, bullet payments, tax shield, group tax relief exchanges, FRS, IAS and IFRS conceptual framework. In the two groups, these define an interpretation of a purpose of financial reporting and governance which is to appropriate revenue streams to finance capital.

Three areas where directors have drawn on the structures of signification through these schemas are finance-based reporting, consolidation policy and group tax reliefs. These are now examined in turn.

- **Finance-based reporting**

Directors have drawn the ringfencing interpretive schemas to treat each fundco as a separate reporting entity and as a profit centre. Respondents across the two case study groups express the interpretive character of ringfencing which is reflected in statements such as: ringfencing provides security; matching cashflows with each fundco; the banks would insist on it (interviewees from the JV1 case); and it isolates risk and provides legal protections around investments (interviewees from JV1 and JV2 cases). Thus, in the two case study groups, both profit and loss accounts and, balance sheet are based on the ringfencing interpretive schema where in relation to profit and loss account, revenue streams are appropriated to the finance provider. And in relation to the balance sheet, the costs of projects (PCT buildings) are accumulated over time and it is expected that at the end of the LIFT contract for the groups, the underlying buildings would be put on the market for sale, with the NHS having the first option to buy. The resulting revenues are expected to be appropriated to finance capital, according to equity capital contribution and
a proportion to debt capital providers (the so-called Bullet payment) (see Mahmood, 2004). In the JV1 group Ltd, for example, debt capital providers would have 30% of the sale value of the building projects and the remaining 70% is split into 60:20:20 for the private sector, 2 local PCTs and CHP respectively.

The practice whereby financial reporting is around fundcos which are financing structures can be seen to be finance-based reporting, thus contrasting with the notion of the traditional healthcare service centre-based reporting (Lawrence et al., 1997; Pollock, 2005). The concern with the finance-based reporting is that it can be seen to be a tool contributing to the growing emphasis on the needs of finance capital. This may marginalize other stakeholders and may also be contradictory (Conflicts and contradictions are discussed in section 7.3).

- **Consolidation policy**

Another area of financial reporting that shows directors’ recursive interaction with the signification structures is the consolidation policy across the organisations in the corporate structure of each group. Members in each group chose different interpretive schemas and have thus conducted their consolidation differently.

There are four points that flow from the consolidation policies across each of the corporate structures of the two groups. Firstly, the differences in consolidation policy between JV1 and JV2 schemes show how different modalities are deployed by directors in the two cases to deal with LIFT revealing inconsistency and dynamism in practice. Secondly, the interpretive schemes shape and reshape the environment to support and extend directors’ capabilities and guide their action as they structure and discipline their financial reporting actions.

Thirdly, and particularly interesting, symbolic financial reporting becomes not only involved with a technically-mediated human agency but also a socially-enacted technical performance. This means that the interpretive schemes constitute meaning dialectically. That is, as Figure 7.1 shows, the interpretive schemes that the directors draw on as modalities in the production and reproduction of the two groups’ financial accountability practices are themselves the outcomes of the directors’ agency. The interpretive schemes
are therefore both a medium and an outcome and represent two sides of the same coin. In communicating the interpretive schemas, the directors create them in human agent-structure interplay. By this, structures and human agency presuppose each other. Giddens in his writings refers to this as duality of structures. This suggests a constituted ontology which means that financial accountability practices do not operate out of separate and independent human agency and structures.

Fourthly, the structures of signification have been subject to multiple interpretations, elaborations and negotiations. The multiple interpretive schemes provide opportunity for reinterpretation and reproduction of the groups’ financial accountability practices, which have meant that the practices are contestable to the extent that a practice that appeared to be a stable practice may be changed and therefore, not entirely predictable and deterministic. It thus shows the embryonic character of the financial accountability and governance structures and reveals the improvisational struggles in everyday accountability and governance practices. It can thus be a case where the private sector reporting technology is not able to deliver the apolitical, technocratic, stable, consistent and improved public sector accountability promised under NPM (Lynn, 1998) (Stability and dynamism in practices are examined later in section 7.4).

Non-consolidation of SPVs has always been an issue especially in the traditional private sector (defined here as non PPP type). It gained further prominence for the wrong reason, that is, as a result of what has become known as the Enron scandal. The Enron scandal has been partly blamed on non-consolidation of its SPVs, a situation that made it possible to hide the full consequences of Enron’s financial viability. The dominant view in the corporate sector and in cases of heavily debt financed merger and acquisition activities is that directors use SPVs as the subsidiaries in the two LIFT groups, to secure debt finance. In such situations, these directors were able to treat the debt as being off the balance sheet of the sponsoring companies (eg. Baker, 2003; Clarke et al., 2003).

The current state of the literature has focused on definitions around beneficial ownership and the hiding of debt to evaluate consolidation and consolidation practices. The findings in the two case study groups suggest that in practice, accountants can draw on their interactions with the organising structures of their organisations and the exemptions under
the accounting standards and the Companies Act to avoid consolidation. This may be predominant in practice but appears to have escaped the focus of researchers.

- Group tax reliefs.

The finding that in the two groups group tax relief has been continuously deployed to reduce tax and boost returns to shareholders, is another evidence of directors recursively interacting with structures of signification through interpretive schemas. This finding replicates the concern that there are various means by which groups of companies minimise their tax obligations to the benefit of the private sector (Shaoul et al., 2008b; Whitfield, 2010).

The legitimation aspect of Giddens’ structuration theory is now discussed.

7.2.3 Legitimation Structures

According to Giddens’ structuration theory, legitimation structures involve a set of values and perceptions of what is right and wrong, what is important and unimportant, what ought to happen, and a moral order. This may be seen as a standard that is attributed to everyday financial accountability practices in the two case study groups. The legitimation structure in these groups is the equity capital shareholding character of the groups as it provides the moral undercarriage that constitutes the financial accountability and oversight activities for both groups.

There are basically three strategies for legitimation namely gaining, maintaining and repairing legitimacy (Suchman, 1995). By employing the gaining legitimacy strategy, the two groups have sought to bring their corporate goals into conformity with the popular views of what is appropriate, what has social acceptance, what could be recognised as statements or opinions of how things ought to be and therefore define obligations and rights (see Lindholm and Neu, 2006) in these equity capital shareholding groups of companies. Therefore, the equity capital shareholding structures can be drawn on with legitimacy as their modality.
The legitimacy identified in the interviews, financial reports and other official documents concerning financial accountability and governance in the two groups is primacy of shareholders and finance capital. This is a process by which the maximization of shareholder value and returns to finance capital has become the primary objective of firms’ directors. This process has been explored and explained as financialisation in section 2.3.

The primacy of shareholders and finance capital indicate that the directors of the two groups have left the public sector status behind, by stating that financial accountability and governance should be based on a company limited by equity capital shareholding status and nothing else. The needs of the shareholders and finance capital have necessarily become the focus of, especially, the private sector- representing directors in these two case study groups. Accordingly, the financial reports emphasise the primary responsibility of these directors, which is to live up to their fiduciary responsibilities to shareholders and finance capital. Here, for the equity capital shareholding groups to be seen to be morally accountable, a commitment to acting in the interest of shareholders and finance capital has been demonstrated by these directors. They have done this by drawing on the norm modalities that require the setting up a finance-based system of accountability with the aim of ensuring that they, the directors are privately accountable and in financial terms to shareholders and finance capital. This is in contrast to the regime of public accountability and Parliamentary accountability via the Secretary of State for Health to Parliament explored in Lupson (2007).

In the two groups, the primacy of shareholders and finance capital modalities involve two subsidiary notions. Firstly, is the notion of profit financialisation whereby returns to finance capital and shareholders are derived from rentier incomes such as interest income, tax shield, bullet payments and group tax reliefs. This links the equity capital shareholding with the desire for profit and returns for shareholders and finance capital. This is because while the equity capital shareholding legitimises the profit making desire, the profit making desire makes sense of the equity capital shareholding character of the two groups. Also connected is the shareholder agreement which is meant to facilitate in terms of imposing fiduciary responsibilities and thus facilitating the financialised norms. Accordingly, Giddens’ suggestion that the structures are interconnected becomes apparent in the groups’ financial accountability practices.
Secondly, it is through the notion of control financialisation whereby shareholder value is no longer merely a metric, but has become the central principle of a corporate governance ideology in which the interests of shareholders dominate the running of firms. Here, corporate governance-style management which internalises the interest of shareholders dominates the governance arrangements in the firms. This therefore links the equity capital shareholding with power relations and the profit seeking desire of the two groups, again consistent with Giddens’ suggestion of interconnectivity between structures.

As with the interpretive schemes under the signification structures, the profit and control financialisation modalities can be regarded as both media and outcomes and thus represent two sides of the same coin. Thus, they can be regarded a moral order constituted dialectically.

The evidence of the notions of profit and control financialisation in the two groups is interesting and insightful for at least two reasons. Firstly, while it is consistent with the existing literature outside of the LIFT scheme (eg. Nölke and Perry, 2007), it makes interesting reading in that it suggests how financialisation notions are being introduced into the new forms of PPPs as modalities for financial reporting and governance. The notions can be seen to be tools contributing to the growing appropriation of financial gains to finance capital.

Secondly, it shows that financialisation involves not only technical, interpretive schemas (signification structures) but also involves some moral relations (legitimation structures), power relations and the use of power (domination structures). This is consistent with Suchman (1995) who identifies three primary forms of legitimacy: pragmatic, based on audience self-interest; moral, based on normative approval; cognitive, based on comprehensibility and taken-for-grantedness. These are respectively related to power relations (domination structures examined in subsection 7.2.4); social acceptance (legitimation) and statement of how things are, i.e. meaning and purpose (signification structures examined earlier in subsection 7.2.2). Financialisation as legitimacy in the LIFT scheme is therefore important, not only for its technical efficacy but also for normative approval and for the self-interest of key stakeholders, namely the banks and the shareholders. Therefore, while legitimacy is critical in the two groups, it satisfies other goals including legal-technical and power relations as well as economic and social
sanctions. Given these interconnectivities, it can be emphasised that financialisation in the LIFT scheme involves complexly interwoven relationships and is not entirely technical as claimed under NPM (Lynn, 1998).

In summary, the two groups as equity capital shareholding set-ups, give rights to shareholders and finance capital to hold the board of directors to account for their actions. In placing importance on equity capital shareholding, the groups send a message that primacy of shareholders and finance capital can be the only legitimate way of being accountable. Therefore, the very deployment of conduct such as tax shield, group tax relief, bullet payments which favours the enhancement of returns to finance capital and shareholder within the groups is an application of a normative sanction. Also, the company status sanctions the corporate governance approach to governance where directors consider it appropriate to apply their fiduciary responsibilities and obligations under the Companies Act, Shareholders Agreement and accounting standards. It is important for directors to know their responsibilities under the Companies Act and Accounting Standards. A notion of whom to be accountable to, referred to as the forum by Bovens (2010), is restricted to shareholders and finance capital.

The directors in the two groups draw on the Companies Act and accounting standards as resources to acquire power and capabilities to be able to organise financial accountability accurately and fairly for shareholders and finance capital. According to this, the directors thus consider it appropriate to apply the responsibilities under Companies Act and accounting standards, therefore implicitly recognising that good/fair accountability practices should be conditioned by means of these regulations and legitimating the use of the profit and loss accounts, balance sheet and corporate governance. But crucially, it means that the norms, interpretive schemes and facilities are interconnected and interwoven, showing how complex financial accountability and corporate governance can be.

Thus far, the first two motivations have been explored in detail under signification and legitimation structures. Giddens has proposed that the three structures are interconnected and interwoven. Figure 7.1 and the discussions above have shown the interconnectedness and interwoveness of these structures. Necessarily, some aspects of domination structures
have appeared in the discussions above. However, some further details of domination structures are now examined.

7.2.4 Domination Structures
The domination structures in the financial accountability and governance practices in the two groups involve (1) the operations of power in the instances of domination and (2) transformative capacities. Domination structures and human actions are viewed as inextricably tied together because the operations of power and transformative capacities are inherent features of actions. Thus, it is in the capabilities of human agents to achieve outcomes including making certain accounts count and enacting or resisting sanctioning processes where power is expressed (Dillard et al., 2004; Lawrence et al., 1997).

Based on structuration theory, the power and the capabilities are made possible by access to resources, which include both allocative and authoritative resources which respectively mean resources that facilitate command over objects and persons (Giddens, 1979; 1984 and 1993). Authoritative resources relate to command over directors by shareholders facilitated by their equity capital; the language of financial accountability and the directors’ controls over; monitoring and coordination of financial reporting and governance activities. However, the allocative resources have involved capabilities of finance capital, again, in particular the banks, to generate command over the flow of investment capital. The different ways by which these resources have emerged in each of the two groups presents some interesting readings that need to be recalled for the purposes of emphasis.

In the JV1 group, power and capabilities lie with the shareholders, the finance capital including the bank, the board of directors and the language of financial accountability. The bank, which has a huge percentage of the investment fund, more than 90% of the capital structure of the JV1 group Ltd, does not have representatives on the board. It does wield some power as it can refuse further debt investment. This means that the bank has economic or allocative power to influence the flow of investment fund into the JV1 group Ltd. However, the bank lacks direct access to authoritative resources. It therefore indirectly accesses authoritative resources by delegating powers to shareholders. In order to achieve this, the bank requires the setting up of an equity capital Shareholding Company with a
As an interview respondent (A1) said:

‘Well they (referring to the banks) would insist - you could have a number of different schemes within a FundCo. You don’t always have to have a separate FundCo for each one. You would have to have a separate FundCo for a different funder. So they would insist that if there was another funder coming in, they had their own separate FundCo’

Each fundco is to be a separate, distinct legal entity and to provide the protection required by the bank as explained by interviewees, it necessarily requires that each is converted into companies. With the setting up of the equity capital shareholding company, in this case, the JV1 group Ltd, a chain of authoritative resources including the private sector controlling the boardroom and the language of financial accountability emerged. They define the rights of the shareholder and finance capital and institute a domination order by giving shareholders and the bank the right to demand from a board of directors that their needs, in particular the return on their investment, are met.

Similarly in the JV2 group allocative resources lie with the bank and the authoritative resources lie with the shareholders and board of directors and also with the language of financial accountability. However, the way the authoritative resources are organised in the JV2 group presents some interesting contrast. Chapter 6 showed that in the JV2 group, there is a private partner, InfraCo, that is so big that if it were allowed to have all the authoritative resources, the power to govern and coordinate, it can dominate decision making. The bank would not let InfraCo possess all the authoritative resources and therefore requires that the authoritative resources are split. To do this the bank needs to be a shareholder because, as a shareholder, the bank would co-constitute the board of directors and therefore shares in the coordination and governance of the day-to-day activities and decisions. The bank achieves this indirectly by requiring that its wholly owned subsidiary, BanCo shares equally with InfraCo, in the equity capital shareholding in PP2 Holdings Ltd and its subsidiary, PP2 Ltd and all the relevant subsidiaries including the JV2 group. This thus makes it possible for BanCo to have equal power to constitute the board of directors of PP2 Holdings Ltd, PP2 Ltd, JV2 Ltd and all the relevant subsidiaries. Consequently, BanCo splits the authoritative resources equally with InfraCo in the day-to-
The board of directors’ day-to-day activities are facilitated also by their fiduciary and legal responsibility under the Companies Act and the Shareholder Agreement between the bank and the shareholders. Also involved are the directors’ own dexterity and commitment to shareholders’ and the bank’s interests, and the language of financial accountability. These constitute power as \textit{dialectic of control} (Conrad, 2005:23). This is because the interaction of human agency and the domination structures is evident in both groups, as directors continuously draw on the language of financial accountability, fiduciary and legal responsibilities, their own skill and commitment in order to gain support from shareholder and bankers and to attract additional flow of debt investment. In some cases, especially, in the JV2 group, private sector directors have had to battle increasingly unhappy public sector directors in an effort to retain power over operations in the group.

Note however that the language, fiduciary and legal responsibilities and membership of the board of directors that directors draw on as modalities in the production and reproduction of each of the two groups’ financial accountability practices are themselves the reproduced outcomes of the directors’ agency, therefore, these modalities are both media and outcomes

\footnote{Note that there is no evidence from the bank to corroborate this interpretation. The interpretation is essentially speculative.}
and represent two sides of the same coin. Again, the domination structures interweave with the other structures as directors have sought to gain legitimacy for the pursuit of profit.

It must be noted that while the constitution of board membership, Companies Act and the Shareholder Agreement are generic, designed and built by policymakers, they are implemented locally at firm level by people who are not necessarily involved in their design. It is through their inbuilt features, and assumptions such as fiduciary and legal responsibilities that they provide resources and also exert some control over the nature of financial accountability and coordination required of directors in the two groups. That is, because these directors face some responsibilities under these structures, they have to appropriate them in order to demonstrate that they are conducting their activities legally and responsibly under these structures. Most of the directors (especially the private sector directors) represent a private company which is building its portfolio and wealth around the schemes that the two groups are involved in and therefore would do everything to make the scheme attractive by internalising the needs of the very important stakeholders, the bank and the shareholders. These directors consequently win support from their financial backer, the bank, by producing surpluses and strong cashflows, as it is by these that further investment would flow.

During interviews, some public sector directors in the JV1 group did not find any concern with the dominance of the private sector directors. For them, once projects are delivered, and maintenance work is done without problems, they would have faith and trust in their private sector colleagues’ control of governance. Again, for them, financial returns to shareholders and finance capital may be paramount to these private sector directors, they find it legitimate and meaningful as without that future flow of investment may stall and subsequent delivery of projects may also stall.

However, in the JV2 group and as it came across in the interviews, some public sector directors expressed concerns and frustrations with the private sector control over governance. Trust which is very important in the JV1 group does not seem to exist in the JV2 group. Specifically, the frustrations according to these concerned public sector

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46 It came across during interview and as available at CHP website, that the Shareholder Agreement is a standard agreement and also that the 60:40 private sector and public sector representation on the board are predesigned by the LIFT policy. The Companies Act are also predesigned. All these resources have actual existence (see Sewell, 1992).
directors emerged from factors which include the private sectors’ focus on profit and lack of openness.

It can therefore be regarded that across the two groups, the private sector’s control over governance may not be universally seen as the best approach but is somehow allowed to prevail because it is by that the investment would flow and more projects would come on board. These together show that while allocative resource, in this case debt investment capital, is a necessary condition for the exercise of power, the evidence in this case suggests that authoritative resources are increasingly important because they are needed to control and coordinate the activities of human agents in complex set-up such as the two case study groups.

Shareholders and members of the boards of directors have a principal-agent relationship. The traditional view is that when a shareholder hires a director to perform specific duties that are in the best interest of the shareholder, it may be costly or not in the best interest of the director. For these reasons there is always a conflict of interest between owners and managers, especially as information asymmetry exists between the two (Jensen and Meckling, 1976). The board of directors are human agents who cannot be relied upon to protect the shareholders’ interest unless its interest is aligned with the shareholders’. Accordingly, theories of agency, property rights and finance have been developed to a structure of a form of behaviour that would solve such conflicts (Eisenhardt, 1989; Jensen and Meckling, 1976; Jensen, 2004). The traditional view is not supported by the evidence in this study, because in this study, the directors, especially the private sector - representing ones are trusted agents who can be relied upon to appropriate financial gains to shareholders and finance capital. In this study, it is not about conflicts between shareholders and directors nor about information asymmetry problems. Rather, it is about giving more authoritative resources to directors in order for them to serve the interest of their principals.

Thus far, the continuous relevance of the profit making interpretive schemas, the financialisation norms and the authoritative and allocative resources has been evident in the two groups. Despite that, there are structural contradictions that cannot be taken for granted, which are interpreted and discussed in the next section.
7.3 Contradictions, Conflicts of Interests Due to Structural Contradictions

7.3.1 Introduction

According to Giddens structural contradictions are endemic in social practices (Giddens, 1979; 1984 and 1993). This section adds to the empirical relevance of this claim by showing that there are contradictions in social practices such as the financial accountability and governance practices of the two groups of companies under discussion in this study. In order to reveal these, a brief background is given as a necessary reminder what the study is faced with. Figure 7.2 shows examples of contrasts of signification, legitimation and domination structures in the groups.

Figure 7.2: Structural contradictions in the two groups

Details of the structural contradictions are now explored in turn.
7.3.2 Conflict and a Contradiction of Signification Structures

In terms of signification, there is evidence of structural contradictions. In the UK health sector and by extension, the PCT, there has been a long tradition, spanning some six decades, of the provision of health care according to needs. This tradition was rooted in the commitment made in the NHS Act 1948 and more recently, in the NHS Act 2006. Accordingly, the PCTs are traditionally described as caring institutions, which draw on professionalism, the Hippocratic Oath, and the preservation of life as interpretive schemes, and communicate in medical terms. Therefore, money, costs and profit were not major concerns and played little role in making sense of what was the purpose and meaning of daily medical care activities. Doctors and nurses were the meaningful human agents, caring professionals, who worked on the assumption that the government, should provide the required level of funding whilst they exercised full discretion over spending.

The caring institution’s signification structures and the caring professionals’ human agency did not go unopposed. The UK government and internationally, some international financial institutions, business people and the accounting profession raised opposing views that problematised the caring institution structure, its interpretive schemas and the associated caring professional human agency as inefficient and not fit for purpose (Aldred, 2006:7; Lawrence et al., 1997; Steger and Roy, 2010).

The two case study groups are representative of some of the initiatives that successive UK governments have undertaken in the health care sector. They deal with PCTs as they earn their incomes from leasing space to PCTs including General Practitioners (GPs) and other health professionals. The GPs are profit making partnerships, organised under the PCTs system. The turnover, that is the income of these GPs, are charges that are claimed on PCTs. These GPs for some part of the history of the NHS had invested in their own premises and had been partially reimbursed via the General Practice Finance Corporation (GPFC) until the GPFC was sold in the late 1980s (Pollock, 2005). That gave way to the private sector to invest in GP premises and secure repayment of their investments and returns out of the NHS income. One may argue that the private sector has before the introduction of LIFT, been involved in the PCTs and GPs’ premises and that GPs are profit making so LIFT’s profit seeking desire should not be a concern. Such an argument is perhaps one of the reasons why some concerns have been expressed that:
'The extent to which LIFT and private finance are changing the ownership of primary care premises and channelling more NHS revenues into corporate hands is not yet widely appreciated' (Pollock, 2005:157).

For this present study, the LIFT scheme has taken the private sector and finance capital involvement in the PCT and GP premises further as a new signification structure of a new emergent revenue claim which means that significant amounts of local PCTs’ revenue are diverted to provide profit and return for finance capital and for the private sector (PAC, 2006). In short, financial considerations have entered another facet of health care which is the PCT premises. At the same time, the caring institution’s signification structures and the caring professionals of the PCTs have not disappeared from the UK health sector. There are therefore clashes of signification structures, interpretive schemes and human agency.

As tenants, the PCTs’ desire to buy tenancy as cheaply as possible without sacrificing quality but as shareholders, they desire profit also. In particular, the PCTs would not want excessively high lease charges to negatively affect their budget for their primary responsibility, which is to deliver quality health care. But the desire of shareholders, including these PCTs, to make profit may undermine the PCTs’ desire to deliver quality care. The need to make profit and returns to shareholders and the bank has meant that the two groups need to have rental charges high enough to cover not only overheads, but also, cost of equity and cost of debt.

As noted in chapter two, the DoH’s budget for LIFT, which is paid through GPs, PCTs and other health providers, should be enough to pay for the cost of debt finance and cost of equity in addition to other overheads. Thus, cost of equity and the costs of the private sector acquiring debt which is usually higher than public sector acquiring debt (Shaoul et al., 2008b), add to the other conventional overheads. Again, as noted in chapter two, LIFT is quite expensive as increased profitability for shareholders adds to its costs. The PCTs necessarily have to pay higher rental charges which negatively affect the budget for clinical care especially because the PCTs pay for the rental charges directly from their own local budgets (Beck et al., 2010; Mahmood, 2004; NAO, 2005; PAC, 2006).
7.3.3 Conflict and a Contradiction of Legitimation Structures

There is evidence of contradictions in the legitimation structures. Traditionally, the structures of legitimation on which health professionals such as doctors and other health care agents have drawn to give care are needs and human rights. Rather than being accountable to finance capital, the health care agents are accountable to patients. While they are set financial targets, they are not necessarily binding on them and so they are essentially not made accountable in financial terms. The moral ground for daily activities is that no one should be denied access to medical care on the basis of money\footnote{http://www.nhs.uk/NHSEngland/thenhs/about/Pages/overview.aspx last accessed on the 15/02/2012.}

An additional contradictory legitimation structure emerges with the two groups which were set up with the tacit intention\footnote{This is becoming more explicit across the NHS as a whole as part of the whole move to NPM} of giving rights to shareholders and finance providers to hold human agents to account for their actions on a largely fiduciary basis. In the two groups, both the private and public sector directors are drafted in together as representatives of shareholders with the common goal of maximising returns for shareholders. The 2009 annual report of JV1 group Ltd communicated this goal when it assures shareholders and finance capital of the continuous quest to generate strong cashflows for them. In communicating this reality, the directors construct reality (Hines, 1988). That is, by referring to this goal, directors become more concerned about it, showing an agency-structure interplay, revealing the entanglements in practice (ontologically inseparable structures and agency), the basic notion of the duality of structures (Giddens, 1984).

However, as some public sector respondents (Q2a and Q2b) to a questionnaire (for JV2 scheme) said:

\textit{`This (referring to the desire for profit) is more of an issue raised by private sector directors who seemed most focused on profit and return on investment. Very difficult to resolve as often the lease plus costs were inflated to ensure return on investment and to protect investor interest, often made schemes unaffordable to public sector partners’}.  

For these respondents:

\footnote{47 http://www.nhs.uk/NHSEngland/thenhs/about/Pages/overview.aspx last accessed on the 15/02/2012.  
48 This is becoming more explicit across the NHS as a whole as part of the whole move to NPM}
‘It (desire for profit) is less important from public sector perspective, more important to have long term reliable partner to deliver projects with over the longer term’.

It has therefore been more difficult for the public sector directors to resist the profit-seeking desire of equity capital shareholding companies such as the two groups, despite the existence of the Shareholder Agreement, as the LIFT schemes need to be profitable in order to be attractive to the private sector and the banks. In the two groups, the UK government has given up its allocative powers, the flow of investment capital and authoritative resources, coordination and governance to those whose major sense of meaning and purpose is profit seeking. It is now becoming a case of public sector directors learning and embracing the profit seeking desire of an equity capital Shareholding Company. This was made clear in the interview for this study, in which a PCT director (D1b) was talking about the bottom line, jargon for profit:

‘So from that point of view reporting, that’s been a major issue for our board because LIFT has had a direct impact on our bottom line and has brought serious grey matter to it over a period of time as to how we deal with that’.

Also, this new life with profit-seeking is viewed by some public sector directors as the only available option, since they emphasized they are coping with a learning process. This new life has had to battle with the traditional structures of legitimation because for example, health care as a human right and medical advancement still exist in the PCTs. The view that the profit seeking exercise is a service slashing one for the benefit of private capital (Lawrence et al., 1997; Pollock, 2005) is very relevant here.

7.3.4 Conflict and a Contradiction of Domination Structures

Further, there is evidence of contradictions in the domination structures. In the traditional regime, clinical agents are given significant powers over the premises. In other words, domination structures reside in doctors and nurses. These professionals are trained and socialised to be responsible as per their Hippocratic Oath and the public sector ethos of public service (Lawrence et al. 1997). In the two case study groups, new power relations whereby money rules have emerged in LIFT premises. These come in two ways. First, in these groups, the bank has allocative powers over the flow of investment capital, and because it increases its investments when reasonable returns are guaranteed the bank has domination structures. Secondly and closely related to the first, shareholders constitute
some of the members of the board of directors who, have through their dexterity and expertise, and emotional commitments to fiduciary and legal responsibilities to the bank and shareholders, increased their power. While these points are not unique to the LIFT scheme, they can be seen to be contributing to the growing power shift from clinical staff to finance capital. Also, as government is relying on finance capital for the flow of investment, it can be seen to be shifting its allocative power to finance capital.

Contradictions become apparent because the fiduciary responsibility has meant that directors have had to desire more returns for their principals, shareholders and the banks. The UK’s Public Account Committee (PAC, 2006) and Beck et al. (2010) have reported on the high LIFT rental charges, which have affected the budget for medical needs.

The powerful human agents are no longer doctors and nurses, nor even the public sector representatives on the board of directors of these two groups. Instead, power now resides in the private sector members of the board. Again, while this is not unique to LIFT, it can be concerning as it can be seen as indicative of a growing fiscal allocation problem in the health sector and possibly, the wider public sector.

The impact of these conflicts of interests would depend on how they are managed. A study on the UK’s Metronet, a transport PPP transaction (NAO, 2009a) had recommended that commercially balanced contracts, clear leadership and credible corporate governance is needed to resolve such conflicts of interest in PPPs. Also, as noted in section 6.3, the government has expected that these conflicts of interests can be managed and governed by the representatives of both the public and private sector shareholders especially as both the public and private sector directors are expected to work in partnership.

However, findings from a review of the LIFT scheme (Rassell, 2008) appear to suggest that the public sector directors may not be effective in dealing with conflicts of interests. The concern raised in this review is that the public sector has little experience in this type of board of director role in a private sector company. This, according to the Rassell report, had inevitably affected the public sector role in the LIFT company board. Such effects thus rebuke the UK government’s eulogised claim that partnership working of the private and public sector directors would resolve incidences of conflicts of interests (NAO, 2005; NHS Plan, 2000).
It thus raises a concern that in the likely event of conflicts of interests, the public sector would let the private sector prevail. The potential consequence of this is that it allows the private sector directors to accrue benefits of such conflicts, particularly any potential financial gains to the private sector. This can be described as a case of subordinating the public interest ethos to financial interest, a development that can be likened to the dominance of \textit{speed over closeness} that is associated with NPM noted in subsection 2.2.2. Therefore, the partnership between the board of directors of JV1 and JV2 groups and the PCTs under the SPA, to implement the PCTs’ 20 to 30 years health care plan could be undermined and thus may undermine efforts to work together. Even though, in the JV1 group Ltd, public sector directors appear to be happy with their projects, in the future, as the financial demands start to impact, the working relations between the public and private sector may change.

\subsection*{7.4 Stability and Dynamism in Practice}

Giddens suggests that due to ontological security, practices may be preserved and therefore become stable but he adds that social practices may change, sometimes slowly and sometimes very suddenly and radically (Giddens, 1984). These instances appear to be the case in the two case study groups. Specific evidence of stability (taken-for-grantedness), change, dynamism and learning and temporality of financial accountability practices in these groups are now examined.

\begin{itemize}
  \item \textit{JV1 group}
\end{itemize}

Across time, the non-consolidation and more recently, the consolidation practices suggest an application of directors’ dexterity, reflexivity, monitoring and their tacit knowledge of the multiplicity and the flexibility that interpretive schemes such as exemptions under the Companies Act offer to alter their practices. Here, the directors changed from non-consolidation to consolidation. While the former treatment was informed by schemas such as exemption of small and medium groups from consolidation under the Companies Act, the latter was influenced by a change in the discourse around these schemas that had informed existing practice. In this way, what appeared to be an established practice, and thus a stability of practice, tends to be only provisional because different treatments continue to be developed, existing practices are now overridden, and new ways of
presenting accounts for example, emerge. New modalities are thus set, and practitioners modify their modalities and/or their contents for new and different practices. Accountability practices are thus never fully stabilised nor is there closure in practice, even though, and as Orlikowski (2000:411) writing on technology observes, practices may be treated as ‘black boxes for a period of time and a practical convenience only’, because practices continue to evolve and are interfered, modified, damaged, improved and rebuilt by practitioners.

Ordinarily, the accounting standards would require the JV1 Ltd\(^{49}\) to consolidate its subsidiaries especially as they own more than 50% of the equity capital in such subsidiaries. However, the Companies Acts exempt consolidation in cases where as in the JV1 group, is deemed a small or medium group. Here, with these multiple interpretive schemes, directors are offered the flexibility to apply different structures as and when they become beneficial to their cause. Agents are thus empowered by structures, both by the knowledge of cultural schemas that enables them to mobilize resources and by the access to resources that enables them to enact schemas.

Giddens has offered that practice can change as actors experience changes in awareness, knowledge, power, motives, time, circumstances and the accountability menus and arrangements. Accountability in practice is changed through the same process by which all social structures are changed, namely human action. People, in this case directors, may change their accountability in practice by deliberately modifying the properties of their accountability practices and thus how they interact with it. Typically, such change is not predetermined or predictable, but implemented by people influenced by their circumstances and environment. Human agents may also choose to enact a different accountability in practice because they have become more knowledgeable about using their accountability schemas, for example, through learning from more experienced practitioners or because they have changed their accountability policies and now need to use accountability designs and arrangements differently.

Human agents may modify their accountability in practice intentionally, as when practitioners respond to new regulations, and recommendations from government.

\(^{49}\) Be reminded that JV1 Ltd is the parent company of the JV1 group Ltd, the LIFT SPV.
Modifications to accountability practices may be inadvertent when, either through inattention or error, human agents fall into a different form of practice, such as dysfunctionality of part of the accountability arrangements. In some cases, practitioners may change their accountability in practice by improvising, that is, generating situated novelty in response to unexpected opportunities or challenges. Such as when reliance on trust and/or private sector directors becomes the preferred practice because it turns out to be more effective than the original practice. As practitioners enact modified accountability in practice they also change the facilities, norms, and interpretive schemes used in their mobilisation of accountability. For example, by changing from non-consolidation to consolidation of SPVs, some of the practitioners’ knowledge of the set of schemas and resources are made obsolete and others are updated at the same time. In this theorising, accountability in practice may become provisional and therefore, any engagement with accountability is temporally and contextually provisional, and thus there is, in every practice, always the possibility of a different structure being enacted.

This is consistent with technology in practices as articulated in Orlikowski (2000). This study concurs with Orlikowski, (2000:412) that such an open-ended lens augments the existing structuration lenses that have focused on stable practices by focusing on human agency and the open-ended set of emergent structures that may be enacted through recurrent social practice. Here, recognition is given to the emergence and impermanence that are inherent in social structures. In this regard, the study acknowledges that while habitual, routinized, and institutionalized patterns of accountability practices may be evident, these are always on-going accomplishments, suggesting that there can be no closure on accountability in practice. Accountants, managers and directors, among others, have the option to choose to do otherwise, (Giddens, 1993) at any moment and within existing conditions and materials, with the accountability menus available. While in such possibilities to do otherwise lie the potential for innovation, learning, dynamism and change, there is equal potential for ambiguity and inconsistency.

The consolidation practices in the JV2 group present a contrast to the above and have been consistent with some of the views in the literature that accountability in practice may become institutionalised over time (Roberts and Scapens, 1985). The details of these are explored.
• **JV2 group**

Here, directors have described in the notes to the financial reports their reason(s) for certain choices, suggesting that they are demonstrating Giddens’ notion of discursive consciousness, which is that human agents explicitly discuss reasons for certain actions. As the JV2 group has been consistent in its non-consolidation practice, there is stability and no departure from routines. This may not suggest lack of reflexivity on the part of directors because the fact that they continue to explain their reasons for non-consolidation in the notes to the financial reports shows that they (implicitly) reflect on that practice. It is possible that they are ontologically secured with such a practice. It does not however, mean that in the future, they will not depart and start to consolidate or to use different modalities to inform their practices.

The non-consolidation practices in the JV2 group show how the elongated structure and the accounting standards provide some modalities that can be drawn on by directors to inform their financial reporting practices. This is an interesting finding as the literature has focused on definitions around beneficial ownership and hiding of debt to evaluate consolidation and consolidation practices (see for eg. Baker, 2003; Clarke *et al.*, 2003; Maine *et al.*, 2003).

Interestingly, the practices in the two groups show how different interpretive schemes: ringfencing, accounting standards, the elongated organisation structure, group tax relief are deployed by directors to deal with LIFT, a model which is supposed to reflect similar transactions. However, taken together, the financial accountability practices in the two groups can be characterised by the following features: temporariness, shared and situated meaning with the practices being emergent, portable, heterogeneous, stabilizing, generative as well as fragile. Following Lajoie, (2005) and Sharin *et al.*, (2004), these are features of scaffolding. Therefore, the financial accountability and governance practices in the groups can be viewed as *scaffolded*, involving: technically-mediated human agency and; socially-enacted technical performances. The scaffolding metaphor can be said to be relevant in the financial accountability and governance practices in the LIFT scheme.
7.5 Conclusions

The chapter has discussed the financial accountability and governance practices of two LIFT schemes. In particular, it has ultimately sought to address the research questions outlined in the introductory section.

Following on from Giddens’ structuration theory, the motivations underlying the financial accountability practices in both the JV1 and JV2 groups are explained principally through the use of the signification and legitimation aspects of structuration. In addition, the chapter shows that two processes are involved in the ways that financial accountability practices come about. The first involves the processes and power dynamics of the board of directors which are explained through the use of the domination aspect of the structuration theory. The second is the duality of structures which is about the recursive interactions that structures and human agency are involved in (see Figure 7.1). Therefore, the chapter shows that domination structures and the recursive interplay of structures and human agency explain the processes by which the practices come about.

Overall, the chapter shows that the major financial accountability and governance practices in LIFT are interconnected and interwoven phenomena. Also, the practices can be seen to be a tool contributing to the growing appropriation of financial gains to finance capital and therefore, the private sector. While this is a development that contradicts the clinical care ethos that underlies the PCTs, the chapter shows that the practices serve other purposes as well, such as offering some legitimacy for the growing appropriation of financial gains. It also demonstrates instability, inconsistency and increasing role of human agency in both the financial accountability and governance practices. This chapter thus contributes to our deeper understanding of the socio-technical forces in financial accountability and governance practices in LIFT.
Chapter Eight: Study Evaluation and Conclusion

8.1 Introduction

8.1.1 Aims and Purposes

The study set out to examine the major financial accountability and governance issues in the LIFT scheme and how they can be better explained using the social-institutional context of the scheme. The study is set within the broader context of neo-liberalism. It sought to respond to calls in the literature for more socio-technical accountability and governance studies (cf. Broadbent, 2012; Hodge et al., 2010; Shaoul et al., 2012) in order to complement the dominant dualist body of work on PPPs in general and LIFT in particular (cf. Acerete et al., 2010; Aldred, 2006; Asenova and Beck, 2010; Beck et al., 2010; Hellowell and Pollock, 2010; Hodges and Mellett, 1999; Jones and Mellett, 2007; Khadoroo, 2005; Mahmood, 2004; Shaoul et al., 2008a, 2008b; 2010; Whitfield, 2010).

Mindful of the various possible theoretical positions, this study has been undertaken drawing on Giddens’ structuration theory, which it is hoped, has made possible a reasonable presentation of the available evidence on the accountability and governance practices in the LIFT scheme, using two case study groups as exemplars.

This present chapter evaluates the study in terms of the key themes and findings of empirical analyses to the research questions presented in chapter one and contribution to knowledge. It then discusses the limitations of the study and the researcher’s biases. Also, the chapter offers recommendations for further research into financial accountability and governance practices within the broader context of neo-liberalism. Finally, it presents the overall conclusion and draws the study to a close.

8.1.2 Outline of the Chapter

The chapter proceeds as follows. Section 8.2 evaluates the study. Overall, the evaluation interprets the contribution of the study in terms of its deployment of Giddens’ structuration theory to investigate financial accountability and governance in LIFT in a more sophisticated way, offering rich insight and drawing out specific implications for research and for practice and explains the study’s limitations. In addition, the chapter offers recommendations for further research in section 8.3 and section 8.4 presents the overall conclusion of the study.
8.2 A Review of the Study

8.2.1 Introduction

The broader position of the study is that financial accountability and governance practices are not part of a given nature. Rather, they involve a continuous recursive interaction of structures and human agency. This interaction can be chaotic as they bring about inconsistent practices. Also, there are structural contradictions which can be seen to be contributing to the growing contradictions in financial accountability and governance practices in the broader public sector in the NPM context.

Some have acknowledged the constitutive character of accounting, namely that PPPs drive accounting and accounting drives PPP. There is also unresolved tension between the nature of external financial reports and the conceptual basis informing their construction (Broadbent and Guthrie, 2008; Jones and Mellett, 2007). By focusing on either structures or human agency as separate and independent entities, it becomes very difficult to reveal the constitutive aspects of PPP accounting and also difficult to resolve the tension between structures and accounting and governance practices.

Despite the above concern, and calls such as Broadbent (2012); Hodge et al. (2012); Humphrey and Miller (2012); Macintosh and Scapens, (1990); Roberts and Scapens, (1985); Yang (2011), Whittington (2011) for more socio-technical studies, the broader accounting and governance literature in general, and PPP in particular, has predominantly focused on either structures or human agency. The results are the three broadly defined categories of studies noted in chapter four. In these, there is an established view of a dichotomous relationship between structures and human agency, which is that structures and human agency are largely treated as independent and separate entities. Therefore, how and why structures and human agency do interact has remained under-researched in financial accountability and governance research.

The predominance of structure and human agency focused accounting and governance research has been criticized for not giving enough attention to the way in which human agents draw on norms, institutionalized knowledge and on certain resources to skillfully produce social order while concurrently reiterating the influence of social structure (Kilfoyle and Richardson, 2011; Yang, 2011). Accordingly, there has been criticism of the
predominant application of deterministic and interpretivist theories as essentially telling part of a complex story (Kilfoyle and Richardson, 2011; Yang, 2011). Some studies outside accounting and governance have suggested that in order to move beyond determinism and interpretivism, we should turn to concepts such as enactment, emergence, learning, contradictions and improvisation to help explain the new ways of social practices (Orlikowski, 2000; 2007; 2010).

It is in order to add to the debate that this study was carried out. The remainder of this section briefly evaluates the study in relation to key themes and policy implications from the findings of the empirical analysis and study aims. It then evaluates the study in terms of critical qualitative case study assessment criteria such as contribution to knowledge, research and practical implications and, discusses limitations for the study, researcher biases and ethical considerations.

### 8.2.2 The Evaluation of Key Themes, Findings and Study Aims

- *To what extent do the corporate structures of LIFT complicate financial accountability and governance practices including external scrutiny?*

In carrying out this study, LIFT in practice is found to involve a corporate structure that is very complex and complicated. This is because, the structure continues to expand and becomes elongated. It was noticeable how financiers of the LIFT scheme have insisted on ringfencing their debt capital funds and giving them legal protection through making them limited companies. These companies then become reporting entities, where very significant transactions such as debt capital, construction, rental charges, related party dealings and revenues can be located. Consequently, the joint venture company, presented originally as the main vehicle for the policy, hardly contains any significant transactions, meaning that the joint venture mechanism cannot be relied upon to deliver transparency of reporting.

The choice of the limited company status by the LIFT scheme was dictated by the requirements necessary to follow private sector accounting regulations and Company Law. As the structuration approach has suggested, this produces signification structures that make profit making and return for finance capital very important sources of meaning and sense making in the reporting and governance in the LIFT scheme. In part, this has resulted in a situation whereby there is minimal disclosure in terms of information available to the
general public. This is made worse by lack of information sharing between partners as evidenced in one case study group. This undermines scrutiny as those responsible for such scrutiny, for example, the SPB, necessarily need adequate information to be effective (Shaoul et al., 2012).

Independent external scrutiny is also undermined. The difficulties in obtaining interviews and other documentary evidence from case organisations in this study is one such example. It reveals how, under LIFT, some directors may not be willing to publicly disclose the scope and extent of their financial and operational dealings, although such dealings are of public interest. Private sector directors draw on the limited company status of the LIFT companies to reduce scrutiny and their preference is to deal privately with shareholders, not the public. This has as a consequence necessarily limited the capacity to achieve transparency meaning that public accountability suffers.

Also, the LIFT structure has produced multiple interpretive schemas, which, the analysis suggests, has contributed to a considerable inconsistency in the reporting between the two case study groups. In the specific case of interest, while the private sector partners draw on Company Law and FRSs to take advantage of exemptions and organise their reporting in a particular manner, the public sector partners, in contrast, draw on IFRS. This generates a lack of symmetry that could undermine any attempt to reconcile the reporting by the two set of accounts for the purposes of any external scrutiny. Further, in one case study group, some of these interpretive schemas have changed throughout the period, which has necessitated a considerable change in the reporting. This is in contrast to the other case study group where there is stability in reporting. The issue with this is that LIFT reporting thus becomes uncertain and incomparable across different schemes.

Government has expected that through the Strategic Partnership Board, the public sector would be actively involved in the oversight and scrutiny activities over the LIFT scheme. However, in conducting the study, it became evident that as this board restricts its activities to the pre-operational phase and provides limited oversight after construction phases, there is lack of continuity of public sector oversight and monitoring by the public sector. However, the private sector achieved control of governance over very large deals by providing 60% of very small amounts of equity. This means that these very large deals are being managed over 20 to 30 years by people who are not necessarily accountable to the
public and who have acquired that dominance with small amounts of equity capital. Therefore, it creates the opportunity for private sector directors to dominate the SPB’s strategy in relation to LIFT especially as there are no restrictions as to how the joint venture companies can earn their surpluses.

- *To what extent does the LIFT scheme enhance partnership working between the public and private sector partners?*

Government has hoped in part that by having both public and private sector – representing directors on the LIFT board, partnership working between the two sectors would be enhanced. However, by conducting this study, it has become evident how partnership working is very difficult to achieve in the context of profit seeking in the JV2 scheme. The private sector partners and finance capital have mobilized both allocative and authoritative resources, in the context of their fiduciary duty of care, to seek profit, which is identified to be inconsistent with and, contradicts the interest of their public sector partners. However, partnership working and success of the LIFT scheme may depend on trust and key personalities working together as well as leadership. Also, the more charitable ethos of the private partner in the JV1 scheme appears to have helped in the partnership working as it is better aligned with the PCTs ethos.

- *How can the financial accounting and governance issues be better explained using the socio-technical context of LIFT?*

In LIFT, what counts as accountability and governance consists of both social relation and virtue that involve structures of signification, legitimation and domination mediated, through interactions with human agency, by multiplicity of interpretations, norms and allocative and authoritative resources. Thus, financial accountability and governance practices are mediated by multiple interpretive schemas, sanctioned by the financialisation norms and facilitated by the allocative resources of finance capital and authoritative resources of the private sector – representing directors and other hidden energies. Thus, these practices are socio-technically complex and complicated and although Giddens’ structuration theory can help to investigate them, it is limited in providing explanations for soft energies such as trust, idiosyncratic relationships and, community and local attachment. Therefore, Giddens’ structuration theory can be extended with the notion of hidden energies of Wang and Ahmed (2002).
In carrying out the study, it has also become very evident that as the LIFT structures of signification, legitimation and domination that inform accountability and governance sit with the traditional structures of the health sector, there are real and potential conflicts of interests and contradictions in the LIFT scheme.

In LIFT, accountability as a social relation (Bovens, 2010) focuses on the relationship between agents (managers, accountants and directors) and forum: shareholders and finance providers, essentially overlooking other stakeholders such as the taxpayer and the general public. Therefore, LIFT makes PPPs rather more opaque and thus contributes to lack of transparency.

Shareholders constitute members of the board of directors who, have through their dexterity and expertise, and emotional commitments to fiduciary and legal responsibilities to the bank and shareholders, increased their power. Also, as government is relying on finance capital for the flow of investment, it can be seen to be shifting its allocative power to finance capital. Despite that these points are not unique to the LIFT scheme, they can be seen to be contributing to the growing emphasis on the needs of finance capital and contributing to a power shift from clinical staff to finance capital.

In terms of the research questions and the study’s context, the evaluation suggests that the complexity of the LIFT structure does not promote better accountability, governance and partnership working. The complex structure gives rise to uncertainties giving rise to questions about policy implementation.

Public policy makers need to account for NPM-inspired technologies and the socio-politico-legal world in which these techniques are deployed, especially the role of human agency, taking seriously the manner in which the private experts use these technologies to benefit finance capital. This means that in assessing the feasibility of neo-liberalism and PPPs in general and LIFT, policy makers need to move beyond the rhetoric and reconsider their locale and practice implications. Accounting and governance in the broader context of neo-liberalism should account for both the structures and the experts’ appropriation of the structures. This is complicated to do as it raises issues about how one accounts for structures and experts’ appropriation of structures. However, some practical suggestions, which go some way to achieving the broader goal, are outlined below.
Policy Implications and suggestions for improvement in practice

There are a number of important policy implications that flow from the findings. These further suggest ways in which financial accountability and governance practices could be improved, and the LIFT policy and regulations could be modified to respond to the accountability and governance problems identified in this study.

Firstly, the lack of information sharing means that it is difficult for public sector directors, especially in complex schemes where there are several public sector entities involved, to carry out their roles appropriately. A greater focus on information sharing among public and private sector directors should be encouraged. This can be done by re-emphasising the spirit of co-operation suggested by the NAO (2009a:20), and, by sharing information in the spirit of co-operation and trust, which is necessary if partnership working is to be enhanced. Information that the private sector might share with the public sector may be about the pricing of maintenance work and about the private sector sister companies and their financial transactions with the relevant LIFT schemes. Public sector directors across schemes should share their experiences and skills. However, all these can be difficult to achieve in practice.

Secondly, information is necessary for public sector oversight, public accountability and independent external scrutiny activities (Shaoul et al., 2012), so the lack of public disclosure and access to information means that these activities are undermined. There is therefore, a need to strengthen the financial governance of LIFT schemes to enhance the release of information and to improve disclosure of financial transactions. Each SPV’s reporting should provide details of relevant projects’ cashflows, details of maintenance payments, related party transactions and related liabilities. Oversight bodies with formal responsibility for oversights such as the SPB should be furnished with these on an annual basis. The SPB would use the information to evaluate the policy annually. This means that the SPB’s role would not be restricted to business case level. Rather, the SPB would be part of the ongoing oversight activities over the life of the LIFT scheme. This is especially important as the SPB is expected to be a conduit through which the LIFT scheme harnesses a long term partnership between the public and private sectors. And
because the information and the outcome of the SPB’s evaluation reports would now be publicly available, other public sector stakeholders may be able to draw on them to satisfy their public accountability needs on an on-going basis. In order to improve public accountability, all financial and commercial dealings associated with LIFT and PPPs in general should be designated by the government as of public interest for the purposes of Freedom of Information Act 2000, thus reinforcing a call by Shaoul et al. (2008a). However, it should be borne in mind that the implementation of these recommendations would involve some cost and may be time consuming, which should be evaluated in terms of the benefits they bring.

- Thirdly, the current accounting and governance of LIFT is chaotic and inconsistent so it is difficult to understand. This is because there is inconsistency between both the public and private participants in their reporting of LIFT in their accounts and also between the two private sector participants who account differently for LIFT. Moreover there are governance differences between JV1 and JV2. In order to overcome this, government should encourage alignment of consolidation policies across schemes and between both public and private sectors, with the aim of achieving consistency through provision of symmetrical data across schemes and over time. This is necessary for comparing the performance of a number of schemes.

- Fourthly, the lack of strong commissioning and strategic planning skills among public sector managers means that the public sector is not able to capture all the benefits of LIFT. This need has been identified at the UK central government level in relation to PFI and by the UK’s Audit Commission and this study provides further evidence. In order for the public sector to capture benefits from the LIFT scheme, it is necessary to develop strong commissioning and strategic planning skills among senior public sector managers. These are important as they are necessary for synergistic development of the LIFT scheme (Beck et al., 2010) and other similar schemes as the NHS increasingly moves in the direction of commissioning from the private sector.

- Fifthly, the study supports the view that a small local company with a charitable background is seen as performing well in an industry where small companies may
be pushed out by the big international companies. It is therefore recommended that there should be greater focus on encouraging partnerships with organisations with ethos similar to the public sector, especially organisations with charitable ethos could improve partnership working in LIFT. This is because working cultures are easily aligned, thus reducing tension and lending support for the view that aligned organisation cultures matter for the formation and maintenance of LIFT partnerships (Beck et al., 2010). Also, there is less emphasis on profit making and even if profits are made they would go back to support good charitable causes for wider public benefit. Such a move would also align well with current government policy encouraging greater involvement of charities in public service delivery.

The UK has led the world on PPPs and other countries are inclined to follow. However, this study shows how important context is. Therefore, LIFT should not be adopted directly by others. Practitioners need to consider contextual differences in various PPP environments. Therefore, other countries hoping to adopt and, consultants hoping to suggest the UK LIFT scheme need to consider differences in context across the world and make room for re-configuration in the context of use.

It should be noted that without implementing the above suggestions, the problems highlighted in the thesis will continue to remain and public accountability in particular, will necessarily be undermined. However, in implementing the policy suggestions, it is important that one would be mindful of some pertinent challenges which are discussed below.

The interplay of structures and agency may create difficulties in implementing the policy suggestions above. The implementation would involve both technically-mediated human agency and; socially-enacted technical performance (Lajoie, 2005) and Sharin et al., 2004). Therefore, the private sector – representing human agents may find other interpretive schemas and structures, especially as there may be a number of them, to promote the interests of the private sector at the expense of public accountability.

Also, because the policy suggestions are based on findings from a specific context within space and time, they cannot be guaranteed to be relevant in the future. This demonstrates
complexities of the social world where the past can be factored into future decisions but the past would not necessarily control future decisions.

8.2.3 The Evaluation of Contribution to Knowledge

Contribution to knowledge in a qualitative study can be evaluated by whether the study has added new theory to an area of study, and/or whether the study has offered rich insights including the social, institutional, cultural and political accounts of organisational practices and therefore adds new meaning to policy and practice (Ahrens and Chapman, 2006; Humphrey and Miller, 2012; Llewellyn, 2003; Parker, 2012) and/or whether an old theory is applied in a new setting (Philips and Pugh 2005) and/or is complementary to existing knowledge (Broadbent, 2012). Also, the pieces of empirical evidence that studies offer are taken as a contribution to knowledge, as such pieces of evidence can be taken as knowledge in themselves, therefore reinforcing our existing knowledge and/or giving us new knowledge (Philips and Pugh 2005).

Mindful of such interpretations, this study contributes to knowledge in financial accountability and governance practices as well as drawing specific implications which are explained as follows.

Firstly, the study draws on structuration theory in an area that has seen little application of structuration theory. Existing studies on PPP financial accountability and governance place a great deal of primacy on either structures or human agency. Also, existing studies have largely treated both structures and human agency as if they are separate and independent entities, paying less attention on the continuous interactions that exist between structures and human agency in practice. Therefore, commonly used theories are based on deterministic approaches and social theories that are based on separation between structures and human agency. By drawing on Giddens’ structuration theory, this study has extended the empirical relevance of Giddens’ structuration theory in financial accountability and governance practices pertaining to LIFT and thus complements the dominant dualist approaches in the literature (cf. Broadbent, 2012).

Secondly but related to the above is that, by applying Giddens’ structuration theory to neo-liberal and the financialisation contexts, the study has offered a different and a novel
theorisation of both neo-liberalism and financialisation in a more sophisticated way than before, providing rich insights that particularly extends our understanding of certain ideas in the literature. The empirical findings thus add to the existing literature in that they reinforce our understanding of the long-standing list of concerns attached to neo-liberalism in a novel way and also provide new evidence:

- The study extends Ramos and Skalen’s (2006) ideas of closeness and speed. They discuss closeness as broadly meaning returns to finance capital and a technical phenomenon, being described as a given part of a nature, whilst this study, by drawing on Giddens’ structuration theory, adds that speed also involves, primacy of finance capital and power relations, shifting power to finance and private sector experts.

- Also, while a well-known finding from other studies is that LIFT and PPP in general are highly geared, as such providing tax reliefs and rentier incomes (Beck et al., 2010; Mahmood, 2004), this study strongly highlights in addition that they provide a sense of meaning, legitimacy, and allocative and authoritative resources. These resources can be regarded as shifting power to finance capital, private experts and shareholders. And while profit making is a well-known motive of the private sector, the use of Giddens helps explain the complexities, conflict and structural contradictions that profit making in the LIFT context entails.

- Therefore, as intended in section 3.4.3, this study has generated a very good explanation for the LIFT’s financial accountability practices namely that the practices involve power, norms and symbolic meanings. Also, this study reinforces in another way the idea that speed can be seen to be undermining closeness which is about quality of care and satisfied public service.

Thirdly, the study reveals that the consolidation policy across the corporate structures that the two cases are involved in is chaotic and inconsistent. Each of the cases have relationships that can best be described as parent-subsidiary relationships and the parents would ordinarily be expected to consolidate the financial reports of their subsidiaries, however, that has not always been the case. There have been times when parents in both cases do not consolidate but for different reasons. Also, there have been times when one consolidates but the other does not consolidate. The reason for non-consolidation is not
about hiding debt. Rather, it is about the availability of multiple structures that directors
can draw on, including ringfencing, rhetoric of joint venture, the elongated corporate
structure and exemptions under the accounting standards and Companies Act. Until this
study, non-consolidation has been blamed on hiding of debts and attempts that have been
made to overcome this have been around preventing any possibility of hiding debt. These
findings should inform policy makers and regulators to be mindful of possibilities of
multiple structures and how they can undermine the current attempts to deal with the
problem of hiding debts.

Fourthly, the study’s highlighting of the fiduciary duty of care to finance capital and
finance-based reporting should be given greater recognition in the literature. This would
complement the information and project-based reporting which a predominantly traditional
wisdom encourages.

Further, the study reveals that private sector directors are regarded by private sector
shareholders and financiers as trusted human agents who can be relied upon to appropriate
financial gains to shareholders and finance capital. It is thus a case of the private sector, as
represented by their representatives: directors; shareholders and financiers being aligned on
one side and then on the other the public sector and its stakeholders. For the private sector
and the financiers, it is not about conflicts between shareholders and directors and not
about information asymmetry problems. Rather, it is about giving more authoritative
resources to the private sector directors in order for them to serve the interest of their
principals. Until now, the traditional view has been that there is conflict of interest between
shareholders and managers, especially as information asymmetry exists between the two.
Therefore, until now directors are regarded as human agents who cannot be relied upon to
protect the interests of shareholders and finance capital unless the interests are aligned.
Accordingly, theories of agency, property rights and finance have been developed to a
structure of a form of behaviour that would solve such conflicts (Eisenhardt., 1989; Jensen

The study has revealed in the financial accountability and governance practices features
such as temporariness, shared and situated meaning with the practices being emergent,
portable, heterogeneous, stabilizing, generative as well as fragile. These are characters of
scaffolding (see for example, Lajoie, 2005; Sharin et al., 2004). By applying Giddens’
theory, the study suggests that these are both technically-mediated and socially-enacted technical performances.

- **Implications for research**

Overall, the study has some useful implications for research. It highlights the long standing concerns in the literature about the problems of NPM. It reinforces the need for researchers interested in financial accountability and governance to account for the complexities that associate the implementation of NPM. The study adds to Broadbent’s (2012) and Humphrey and Miller’s (2012) call for cross-disciplinary research. Researchers would have to reconsider existing NPM rhetoric emphasising organisational practice that presumes NPM as given and taken for granted in practice.

Socio-technical theories such as Giddens’ structuration can be used for theorising the accountability and governance practices, particularly, the manner in which allocative and authoritative resources facilitate the power of finance capital and the private sector experts. To explain why governments continue to deepen neo-liberalism despite the long standing concerns in the literature, researchers may need to go beyond the dominant dualist theoretical approaches. That is we need to reconsider the various dichotomies underlying accounting and governance research.

Also, the study opens up Giddens’ structuration theory to neo-liberalism and financialisation as possible line of research for financial accountability and governance practices in PPPs in general, and LIFT in particular. This reinforces the call for wider and interdisciplinary coverage of accountability and governance practices in the wider neo-liberal context (Broadbent and Guthrie, 2008; Humphrey and Miller, 2012). The empirical findings complement the dominant research (eg. Aldred, 2006; Asenova and Beck, 2010; Beck et al. 2010; Khadoroo, 2005; Mahmood, 2004; Shaoul et al. 2008a; 2008b; 2012) that focuses on either structures or human agency as separate entities, highlighting the continuous interaction between structures and human agency in financial accountability and governance practices in PPPs.

To explain the role of trust and leadership in the corporate governance practices in LIFT, researchers may need to go beyond Giddens and combine it with the notion of *hidden energies* (Wang and Ahmed, 2002).
The study has revealed in the financial accountability and governance practices scaffolding features such as temporariness, shared and situated meaning with the practices being emergent, portable, heterogeneous, stabilizing, generative as well as fragile. Therefore, to explain these, researchers may need to apply the scaffolding metaphor in an area where it is not prevalent.

‘Accounting researchers need to argue the merits of their chosen perspective, to defend their position and be equally prepared to be contradicted’ (Laughlin, 1995:77).

Therefore, despite the above contributions and insights, there are various limitations to the study that need to be acknowledged.

- **Limitations of the study and researcher biases**

Generally, criteria such as internal and external validity and reliability of evidence are of paramount importance to researchers especially determinist researchers (Ryan *et al.*, 2002). In such studies, internal validity tends to emphasise whether the independent variable indeed affects the dependent variable, in which case the internal validity is said to have been achieved. This case study does not seek to relate variables, therefore making it inappropriate to be judged using the internal validity criterion.

Rather, as with any qualitative study it aims towards establishing credible and fair accounts of the issues under consideration; financial accountability and governance practices and understandings. Accordingly, the study treats the issue of credibility of the research questions being addressed, the types of data being collected, and research methods employed, as fundamentally important. Parker (2012:59) suggests that for research accounts to be credible, they should be convincing in terms of **being authentic, plausible, and convincingly drawn**. He explains these notions in the following ways.

‘An account is authentic if it reveals evidence of the researcher having been in the field and experienced the events and processes studied. It is plausible if its findings and arguments make logical sense to the reader. Finally it is convincing if it offers possibilities for augmenting knowledge and practice, addresses organisational and accounting issues, offers a sense of usefulness to researchers and practitioners’.

Efforts have been made to satisfy all the above tests, including the evidence of comparing and using multiple sources of data and confirmation of information relating to the
corporate structure and others at interviews to make the material for the study credible. However, it is important to state that while the researcher was in the field in terms of interviewing, he did not directly experience the financial accountability and governance events and processes in the way that an anthropologist would have us do, which is for example, living with study subjects and observing how things are done (Monaghan and Just, 2000).

The difficulties in obtaining interviews and other documentary evidence from the case organisations, have necessarily limited the scope and extent of the issues examined. Further research as suggested in section 8.3 below, is necessary to further explore the issues that have been identified in this thesis.

Also, the limitations associated with the case study approach apply to this study. Critics of qualitative case study such as this study may argue that as the findings from such studies are based on a specific context, setting and two cases, the claimed contributions to knowledge may not pass the test of statistical generalisation, that is they lack external validity and therefore should be doubted. However, such findings can be analytically generalizable, meaning that the findings can be generalisable to similar kinds of circumstances (Ryan et al., 2002). Moreover, the findings are based on specific context within space and time which cannot be guaranteed to be same in the future.

As Llewellyn (2003) has noted, structures feature at the interactional and organizational levels of analysis and metaphors and differentiation permeate the understanding of human experience across the levels of theory. Therefore, as Giddens’ structuration theory is used in this study as a sensitizing device, it is important to acknowledge that in drawing on it the study is not able to cover all of the five levels of theorization and satisfy the demands of Llewellyn (2003).

Also, as Macintosh and Scapens (1991) have noted, analysis and interpretation of this study’s findings may be differently produced by different perspectives. For this reason, the interpretations and analysis and the resulting conclusions may be speculative and may reflect the biases including that of the researcher.
The researcher biases are twofold. First, a basic belief that financial accountability and governance arrangements that place a great deal of primacy on financial outcomes, particularly in the interest of finance capital, should remain in the private sector. The researcher is concerned that placing a great deal of primacy on financial outcomes in the public sector may contradict our social essence because it increases the power of private sector financial elites. The second is a desire to reveal that financial accountability and corporate governance practices in the new forms of PPP are necessarily complex phenomena.

The study has sought to control for such biases by presenting the story as told by the various sources of data including as many direct quotations in chapter six before presenting the second level that is based on a theory in chapter seven. By this, readers may be able to compare both accounts and make appropriate assessment.

Although I have detailed my background and role, it is possible I might have missed out some of the research participants’ understanding or my understanding might have influenced the interpretation.

Despite these limitations and biases, when considered in the context of specific findings in the thesis as well as of the existing literature, the complexities associated with financial accountability and governance in PPPs will continue to be a fruitful area of research at least for the foreseeable future.

Also, whilst PPPs continue to be the favoured approach to deliver/finance public infrastructures by governments, the contributions of this study will have long lasting relevance - other academics and policy makers may also be interested in the research as a basis for other work.

### 8.3 Recommendations for Further Studies

While several aspects of the study provide possibility for further research, the following areas have been found to be particularly worthy for further attention. Firstly, the idea of the scaffolding metaphor seen as relevant in the financial accountability and governance practices in the LIFT scheme can be explored further. That is, future study can explore features such as temporariness, shared and situated meaning with the practices being
emergent, portable, heterogeneous, stabilizing, generative as well as fragile. The aim would be to show how these features are both technically-mediated and socially-enacted technical performances.

Secondly, as the findings are from two cases, they may be symptomatic of a bigger problem. Therefore, in the future, additional cases could be studied with the aim of seeking to uncover whether or not the chaotic nature of the consolidation policy is widespread and what the wider implications can be.

Directors’ agency role in governance and oversight has received much research interest especially in the market based accounting and governance literature. Until this study, the focus in the literature has been that directors cannot be trusted unless their interests are aligned with shareholders. The present study is highlighting an idea that directors in the LIFT schemes are trusted agents who have to be given authoritative resources to appropriate financial gains to shareholders. Possible future research could focus on exploring the implications of this.

The quest for appropriate theories to investigate social phenomena such as financial accountability and governance practices is an on-going discourse (Broadbent, 2012; Broadbent and Guthrie, 2008; Llewellyn, 2003; Parker, 2012). This study has successfully drawn on Giddens’ structuration theory to investigate financial accountability and governance practices. In the future, Giddens’ structuration theory could be used to investigate financial accountability and governance in other settings. In doing so, a theory that has received very little attention in this area of social science would generate a complementary set of knowledge. Also, as some and not all the elements of structuration theory are applied in this study, future studies would benefit from other aspects of the structuration theory such as his notions of ontological security, intended and unintended consequences of human agency in financial accountability in PPPs in general, and LIFT in particular.

Furthermore, as the study opens up Giddens’ structuration theory to financialisation, in the future, emphasis will be placed on examining whether financialisation is always the same thing and to explore profit and control financialisation in detail, especially the kinds of financial value that LIFT does create.
8.4 The Overall Conclusion of the Study

This study offers a number of rich insights into the financial accountability and governance practices. The study has attempted to understand the major financial accountability and governance issues and whether and in what ways structures and human agency interact in the LIFT scheme and what the implications are. It is a response to calls for the use of socio-technical theories such as Giddens’ structuration theory to unveil financial accountability and governance practices as involving complex socio-technical processes, including a continuous involvement and influence of human agency that transcend the dichotomy held by the predominant view. As a result, the study calls for a rethinking of the conceptualisation and theorising of such dichotomy.

The role of outside agency, where accounting procedures are adapted to provide the oversight demanded by this outside agency (Jones and Mellett, 2007:116), can be seen to be present in the two case study groups. This is because in both cases, allocative and authoritative resources, including accounting as a resource, have been deployed as important considerations in their financial reporting and oversight practices to satisfy the bank and the shareholder. Therefore, the practices can be seen to be tools contributing to the growing shift of power and appropriation of financial gains to finance capital as part of the wider NPM and financialisation contexts. This has implications for public accountability as accountability is restricted to finance capital.

The overall thesis is that LIFT financial accountability and governance practices are socio-technically complex and complicated as they are mediated by multiple interpretive schemas, sanctioned by the financialisation norms and facilitated by the allocative resources of finance capital and authoritative resources of the private sector - representing directors and, trust, idiosyncratic relationships, leadership and community and local attachment. And even though Giddens’ structuration theory can help to investigate these practices, it is limited in providing explanations for soft energies such as trust, idiosyncratic relationships and leadership and, community as well as local attachment, which means that Giddens’ structuration theory can be extended with the notion of hidden energies of Wang and Ahmed (2002).
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