

## **TRANSACTIONS COSTS IN RURAL DECISION-MAKING: THE CASES OF FUNDING AND MONITORING IN RURAL DEVELOPMENT IN ENGLAND.**

### **Abstract**

Public domain decisions in rural England have become more complex as the number of stakeholders having a say in them has increased. Transactions costs can be used to explore this increasing complexity. The size and distribution of these costs are higher in rural areas. Grouping transactions costs in to four; organisations, belief systems, knowledge and information, and institutions, two of the latter are evaluated empirically: growth in the bid culture and monitoring and evaluation. Amongst 65 Agents of Rural Governance (ARGs) in Gloucestershire, both were found to be increasing over time, but those relating to finance were a greater burden than those of monitoring: the latter can improve ARG performance. Increasing transactions costs in rural decision-making appears to be at variance with ambitions of achieving 'smaller government' through, for example, the Big Society. Smaller government is likely to be shifting the incidence of these costs, rather than reducing them.

**Key Words:** governance; differentiated polity; transactions costs; rural decision-making; the bid culture; monitoring and evaluation;

### **1. Introduction: transacting rural decisions**

In England, as in most western economies, the way in which public domain decisions are made has become more complex over time, as communities are encouraged to take increasing responsibility for their own affairs. This responsibility, in turn, leads to the development of a diffuse range of organisations and institutions for making such decisions. With this complexity, too, comes an increasing cost of transacting those decisions.

In fact, it has been suggested that transactions costs in general within all Western economies are on the increase. North (2005) has estimated that within the American economy at least, transactions costs have grown from 24% of Gross National Product in 1870 to just over 50% in 2000. Whilst this can be attributed in part to a general reduction in production costs, a growth in specialisation and a shift from manufacturing to services, it also can be attributed, he asserts, to increasing decision making activity in the public and community realms.

The nature and causes of the increased complexity of public domain decision-making specifically within the rural context in England are explored briefly in section 2 of this paper. From this analysis, it is argued in section 3, that transactions cost economics can make a valuable contribution to understanding this complexity of decision making, because it is concerned to explore the nature and magnitude of the organisations, belief systems, knowledge and information and institutions that influence such decisions, and to assess their impact on economic performance. Section 4 offers a description of the range of transactions costs to be found in public domain decision-making drawn from traditions in New Institutional Economics (NIE).

From the literature, two of these costs can be identified that are of particular significance in rural decision-making. The New Public Management approach to service delivery, introduced towards the end of the Thatcher administrations in England in the late 1980s and early 1990s (Beckford, 1991) heralded a shift from block grant allocations of public funding for rural projects and services (particularly those delivered by the voluntary sector) which were not payments for specific activities and had no particular performance indicators. These were replaced by *contracts* for the provision of particular services with particular measurable (and *monitorable*) outcomes, binding on both parties and enforceable in law (Russell and Scott, 1997). The introduction of both contracts and monitoring shifted new administrative burdens onto those seeking to use such funding.

Moseley *et al* (2004), the Carnegie UK Trust (2006) and the NCVO (2004) have collectively considered that for rural areas, the development of the contract culture and the growth in the monitoring and evaluation of rural decision making bodies in respect of their public rural expenditure represent the largest growth in the increased costs of transacting rural decisions over the past 20 years in England. The evolution of these transaction institutions since the late 1980s and the nature of the costs that they place on organisations are explored in sections 6 and 7.

These two sections also report on an empirical survey into both contract and monitoring costs amongst what are termed in this paper, 'agents of rural governance' (ARGs) in the county of Gloucestershire in England, in 2007, as a means of exploring the views of the literature more fully. The detail of the survey is described in section 5.

The paper concludes, in section 8, that these and other transactions costs are increasing within rural decision-making in England and the traditional state machinery reduces their decision-making costs by passing them on to a more diffuse range of makers of public decisions.

## **2. Rural decision-making in England**

General writings about changing governance over the past 30 years provide a context for the increasing complexity of decision-making. Rhodes (1997) describes the growth of a 'differentiated polity' by which the centralised nature of government has given way during this 30 year period to a much wider range of governing efforts (Marsh, 2011). Organisations involved in government have become more fragmented and interdependent and under what has been termed a 'congested' regime (Goodwin and Grix, 2011), there are regular interactions (both elected and executive) between all parts of government on a much broader basis than central-local relations (Kooiman, 2003).

This differentiated polity can be observed in English rural areas possibly more so than in urban areas (Valentinov and Larsen, 2010), for reasons considered further below in relation to transactions costs.

A panoply of bodies is now involved in decisions about rural service delivery, rural plan and strategy formulation and rural resource allocation, from the private and voluntary sector through public-private partnerships to a range of state bodies. All of these functions are delivered by a range of different groupings over which the central state has imperfect and diminishing control. In this context the *policy network* becomes a defining characteristic of this differentiated polity (Saward, 1992). Here:

*'policy is the responsibility of no one institution, but emerges from the interaction of several.'* (Rhodes, 1988, page 404)

Processes of rural decision-making in England have changed consistent with this differentiated polity since the late 1970s. At that time, the Department of the Environment's Countryside Review Committee (1976) was concerned that the problems affecting rural areas were at least partly due to the structure of government itself. Research at the time concluded that there were many stakeholders (from the national state through to many voluntary organisations) that led to public decision-making interrelationships of "extreme complexity" (Smart and Wight, 1982, page 17). More than 30 years later, this extreme complexity has become more complex still. The 2011 OECD Rural Policy Review for England characterised the policy decision structure for English rural areas as 'spaghetti-like' (OECD, 2011, page 162), reflecting, perhaps Gunasekara's (2006) general characterisation of public decision making in western economies at the regional level in the new millennium to resemble a 'spaghetti and meatballs' structure.

Various authors have offered reasons for this increasing complexity of English rural decision making, particularly since the mid 1990s. These include an increase in the

number of levels of rural governance: European-level decision structures (Burch *et al* 2003) the introduction of a regional structure of rural governance in England (Ward *et al*, 2003, Pearce *et al*, 2008) and an increased emphasis on localism and rural citizenship (Lowe, 1996, Goodwin, 1998). At this latter level too, Shucksmith (2000) has argued that a resurgence of endogenous models of rural development has further increased the complexity by which rural decisions are made.

A number of these bodies was surveyed specifically for rural areas of England, using Gloucestershire in the South West region as the survey area. The survey is reported below. They were termed Agents of Rural Governance (ARGs) and 175 of them were identified at the county level. This figure cannot be definitive or exhaustive, however, because one of the characteristics of these ARGs is that they constantly form, disband and reform. Indeed at the regional level, South West of England regional agencies (GOSW/SWRDA, 2006) attempted to '*track down*' (page 4) ARGs that could be considered to be '*tangibly linked*' (page 4) with the '*complex nature*' (page 4) of rural delivery. Their inventory also was considered to be incomplete: they were identified '*as far as the law of diminishing returns would take it*' (page 4). Roger Tym and Partners (2005), too, identified 137 of Saward's (1992) policy networks operating within the rural parts of the South West of England region, set up to manage the complexity of decision-making and representation. But these too, were considered difficult to define and: '*the database is unlikely to be comprehensive in its coverage of all regional groups*' (para 4.1, page 23).

This proliferation of rural ARGs in the 2000s in England has not escaped the attention of government. The Haskins Review (2003) sought to rationalise both the basis of rural delivery and of rural funding and specific proposals to this end were contained in the subsequent Department of the Environment and Rural Affairs' (Defra) Rural Strategy of 2004 (Defra, 2004). For rural decision-making, Regional Rural Priority Boards, chaired by the English Government Offices for the Regions (GORs), would co-ordinate the delivery

of rural policies and services and stakeholders would have an 'empowering' voice through Regional Rural Affairs Forums (Donaldson *et al*, 2006).

But a number of other features of the English Rural Strategy would ensure the continuing growth of ARGs. Local Area Agreements encouraged additional policy networks and other local empowerment groups. Social enterprises would develop community capacity, and a healthy civic society was to have the development of the voluntary, community and parish sectors at its core. The emergent Rural Social and Community Programme, a new funding stream in England in the second half of the 2000s, would orchestrate the enhancement of this 'social capital'. The net effect of the Rural Strategy has been to increase the size and complexity of rural administration.

The precepts of the English Rural Strategy 2004 had thus promulgated a *laissez faire* approach to rural decision-making: ARGs can come into being and disappear more or less as they wish and collectively, they concern themselves with topics of public policy interest with unsystematic priority (Roger Tym and Partners, 2005). There can be little public policy control over whether they exist or not, irrespective of the wishes of the Haskins Review. They conform well to Rhodes' (1997) construct of 'differentiated polity'.

### **3. Transactions costs in rural decision making**

One means of exploring this increasing complexity of rural decision-making in England is to examine the nature of the costs of transacting such decisions. As Miller (1997) suggests, transactions cost economics (TCE) provides a useful bridge between neo classical economics and political science through examining the nature of rational choice decisions, in the context of this paper, within a differentiated polity. Whilst the traditional preoccupation of TCE is concerned with the way that *firms* operate as a governance structure (Williamson, 2005), authors such as Horn (1995) have applied transaction cost theory to public policy issues and Miller (1992) has used such theory to explore the

nature of organisational hierarchies in public and private organisations. This study extends this assessment to the community sector, an area explored by Miller (1997) in the context of citizenship behaviour and the development of interest groups.

TCE explores the importance of organisational, belief system, knowledge and information and institutional arrangements on economic performance. Early writers have explored the importance of cultural values in these arrangements (Veblen, 1904) as well as administrative performance (Commons, 1931). More generally, Williamson (2005) suggests that governance, whether in private firms or public organisations, is the means by which to introduce order, mitigate conflict and realise mutual gains in transacting decisions. TCE is concerned to minimise the hazards of transacting these decisions.

Kim and Mahoney (2006) suggest that transactions costs are the costs incurred in the process of reaching a decision between all interested parties, irrespective of the outcome of the decision itself. As the number of bodies concerned with transacting decisions in a society grows, asserts North (2005) – in the context of this paper, ARGs – so the transactions costs associated with them increase. North (2005) also has argued that such costs are likely to be higher in public decision-making than in commercial decisions because the decisions are inherently more complex.

Transactions costs will be lowest where institutions and organisations operate effectively and where there is full knowledge and information in the relevant sphere of operation. Positively, transactions costs can explain why different institutional arrangements lead to different levels of performance. Normatively, they can be used as a means of making institutional improvements. Whichever approach is adopted, however, it is recognised that reducing transactions costs increases economic and social value (Kim and Mahoney, 2006). New Institutional Economics (NIE) approaches to the study of macro transactions costs seek to identify different *types* of transactions costs (Williamson, 2000) and where

they are to be found within decision-making systems, rather than their magnitude (Dietrich, 1994). This is the approach adopted in this paper.

In developing notions of TCE, North (2005) considers the public and community realms explicitly (he terms these *the polity*, analogous to Rhode's (1997) use of the term). As service provision within advanced economies increases as a proportion of economic activity, the polity (in the case of this paper, ARGs) takes on a greater role. Issues that have inherently high transactions costs, says North, tend to gravitate towards the polity whilst issues that can achieve low transactions costs tend to be dealt with by the market. Because a portion of these (higher) transactions costs are caused by limitations on full knowledge, the polity becomes more vulnerable to making the wrong decisions and to being captured by special interests at the expense of the general public.

In this context, Valentinov and Larsen (2010) suggest that specific rural transactions costs can arise because sparsely populated areas do not allow for the creation of markets and their effective operation. To the extent that these rural transactions costs are not reducible (they are inherent) then voluntary organisations and other 'community' governance structures (the polity) step in to take the place of conventional firms.

These voluntary organisations tend to be 'mission' rather than 'profit' oriented and tend to be favoured by the citizenry over the state for the provision of certain goods and services, because they are flexible and are able to deploy a superior local knowledge. In the English context, such a proposition might go some way to explaining the much higher incidence of voluntary organisations per head of population in rural areas than in urban ones (Yates, 2002) and a much more significant role in the provision of such services as transport, housing and environmental protection in rural than in urban areas (Blackburn et al, 2003).



This notion of specific rural transactions costs in the context of North's (2005) polity is given support with reference to Saward's (1992) policy networks specifically in rural areas in the South West of England. A study by the CCRU (2005) found that such networks had identifiable uses but had a tendency to proliferate. They also were not necessarily representative of anyone and lacked any strategic synthesis: there was duplication and a lack of integration. The Roger Tym and Partners (2005) study in South West England, too, concluded that these rural policy networks were recent, had no powers or budgets to enforce anything and occluded the ultimate responsibility for decision-making. Many groups had an input into each other and the time commitment simply involved in attending meetings was considerable. In addition, the array of groups was confusing:

*'Added to this is the question of knowing the extent of regional groups, particularly where there appear to be several groups concerned with the same topic or where there are subgroups feeding into a regional group. It can be difficult to understand the different remits of these groups and subgroups or consider the potential for any further coordination or rationalisation of regional working.'* (Roger Tym and Partners, 2005, page 20, paragraph 3.19)

*A priori*, the costs of transacting decisions in this diffuse context would appear to be high. But a transactions cost approach also has some relevance in exploring the shifting *incidence* of the costs of transacting decisions within this differentiated polity.

Much comment has been made about the ubiquity of the growth in 'rural community empowerment' in successive national administrations in Britain. John Major's Conservative 1995 Rural White Paper for England (Department of the Environment, 1995) stressed the traditional strengths of rural communities in respect of independence and self-help (Lowe, 1996). Rural quality of life started with local people and local initiative (Hodge, 1996) and the state was to help communities to help themselves

(Murdoch, 1997). Exemplifying the political ubiquity of the citizenship agenda in Britain, the New Labour Rural White Paper of 2000 (DETR, 2000) contained the same rhetoric. It provided specific rural funding streams (Community Service Fund, Special Parish Fund, Parish Plans Fund) to allow local rural communities to become actively involved in decision-making for their own development. Under the guise of 'the Big Society', too, the incoming Conservative\ Liberal Democrat Coalition of 2010 offered the same message. The Department for Communities and Local Government's (DCLG, 2010) Structural Reform Plan notes: '*our ambition is localism. Real change driven by local people working together in their communities*' (Page 2).

Whilst these policies undoubtedly offer an element of participatory democracy – empowering citizens through community involvement (Phillips,(1993), Young, (2000) Paddison *et al* (2008)) – they also shift *responsibility* onto a wider range of people and organisations (Jayasuriya (2002), Fung and Wright (2003), Imrie and Raco, 2003)). And such responsible participation also shifts the cost burden of decision-making away from the state. Indeed much of the recent history of citizen empowerment has been aligned with the need to save on exchequer costs (Burns and Taylor, 1998). So whilst Lemke (2000) suggests that both participatory democracy and responsible participation are concerned to reduce the size and cost of bureaucratic state government, the *overall* size and cost of government may well increase (Hunt and Wickham, 1994). A transactions cost approach will allow the exploration of any 'shifting the cost' of rural decision-making away from the state. In this regard Valentinov and Larsen (2010) call for further research on transactions costs in the rural areas, particularly in relation to voluntary organisations.

#### **4. A Typology of transactions costs**

North (2005) offers a classification of macro transactions costs in this NIE tradition and these are presented in figure 1 . These costs tend to be found within decision-making

systems in a number of different places. Clearly, *organisations* (such as ARGs) harbour such costs both within themselves and within the relationships between them that are developed in the context of decision making. The more organisations there are making decisions, the more costly reaching decisions becomes. The two examples cited above – the proliferation of policy networks in the South West region of England and the shifting of decision making costs away from the state – both create transactions costs within this ‘organisations’ category as organisational structures become increasingly complex (Sullivan, 2002).

Figure 1 near here - *macro transactions costs in decision-making systems, after North (2005)*

But *belief systems* generate further transactions costs: reaching decisions amongst like-minded people is quicker and less costly than resolving decisions amongst those with very divergent or opposing views. And public decisions tend to need to accommodate a more disparate range of belief systems than commercial or private decisions (Hutchins and Hazlehurst, 1992), particularly in the context of a differentiated polity.

*Knowledge and information* provide a third component of the decision-making process where transactions costs are to be found. Knowledge and information can improve decisions but it is often costly to procure such information in terms of time as well as money. The sheer volume of available information to assist in certain decisions, on the other hand, can lead to the assimilation of none of it because it is impossible to know where to start. Where decisions are made without available information, information transactions costs are reduced, but belief systems come to the fore, pushing up belief system transactions costs.

Finally in North’s (2005) taxonomy are *institutional* transactions costs. Institutions are the rules, regulations, customs and procedures that provide the framework for making

decisions and these can generate transactions costs in the way that they are implemented and the way that they relate to each other. The increasing complexity of institutions in Western democracies over the past 30 years has been widely discussed, from Stigler's (1971) economic assessment, to evaluations of institutional growth in governance (Hood *et al*, 2000), environment (Maloney and McCormick, 1982), technology (Birnbaum, 1984), lifestyles (Fitzpatrick and Derbyshire (2001)) and health (Cruickshank, 1996).

For the purposes of this focus on rural decision-making, two of these institutions are given particular consideration because, as noted in the introduction, they are considered to be the most significant in terms of their impact on rural decision-making transactions costs. These are the move to a contract culture for much rural funding, and the monitoring and evaluation of this funding within the organisations that seek it.

## **5. An empirical evaluation of transactions costs in Gloucestershire, England**

In exploring these two types of transactions cost empirically, an approach was developed to identify a comprehensive set of those bodies in a case study area, the county of Gloucestershire, England, that had an active role to play in public domain decision-making. The county itself is situated between the metropolitan areas of Bristol to the south and Birmingham to the north and borders Wales in the west. It has a population of just over 800,000. Administratively and topographically it is split into three main parts, known locally as 'forest and vale and high blue hill'. The forest area to the west of the county is entirely rural and is administered by the Forest of Dean District Council. The vale is the lowland central part of the county through which run the rivers Severn and Avon. This is the most densely populated part of the county. It has the two main towns of the county within it (Cheltenham and Gloucester) each of which has their own administrative council. Tewkesbury District council (Tewkesbury being the fourth largest town in the county) also is in the vale and is largely rural.

The 'high blue hill' (the Cotswold Hills) is the rural part of the county to the east covered largely by the Cotswold District Council in which the fifth largest town of the county is situated: Cirencester. Spanning the vale and high blue hill to the south of the county is Stroud district, another rural district but containing the county's third largest town, Stroud (Figure 2)

Figure 2 near here - *Gloucestershire: location and administrative areas.*

The bodies that have an active role to play in public domain decision-making in rural parts of the county were termed agents of rural governance (ARGs). A taxonomy originally deployed by Burns and Taylor (1998) was adapted for the purpose of analysing them, which sought to differentiate a range of ARGs according to whom they purported to represent, whether they had elected representation, the nature of their constitution and the sources and levels of their funding.

In this adapted taxonomy the first four ARGs below may be considered to be state organisations in some way, and the next three have been termed by Giddens (1998), civic bodies. Partnerships and mutual aid groups make up the remainder of the list. *State Bodies* tend to be large bureaucracies with statutory functions, largely accountable to publicly elected members. *State Quangos and Trusts* are distinguished from state bodies by their decision-making. Staff are responsible to a committee but this committee invariably is not appointed by the state directly. *State Development Agencies* make decisions through non-elected and non-appointed people. They are distinct from state trusts and bodies in that their functions are singularly concerned with economic development. *State Adjunct Bodies* differ from state trusts and state development agencies in that they serve a specific stakeholding community rather than the public at large, and their non-executive members tend to be self-selecting rather than representative.

Of the civic bodies, *Voluntary, Not for Profit Bodies* are legally constituted but are less regulated than state bodies. They tend to be monitored only for the boundaries of their activity (what they may or may not do) and financial propriety in respect of their donors. *Community sector* bodies are formally constituted, but unlike the voluntary sector, they do not employ paid staff. They would normally be responsible to a committee elected by its membership. *Social Economy Groups* are concerned with production and wealth creation, but usually can be distinguished from commercial organisations because of the importance of the 'not for profit' motivation. *Partnerships or Networks* tend to have come into being to allow the increasingly complex set of ARGs to relate to one another. *Mutual Aid Groups* have no formal conventions but there may be informal ones. Beyond this there may be just networks of friends and beyond that, self-help.

ARGs in Gloucestershire were classified using this taxonomy through a review of a number of documents (for example, Roger Tym and Partners, 2005, Royal Society of Arts, 2004), directories (for example, RUFUS, 2006) and web searches. Their characteristics from these sources were used to allocate them into the taxonomy although at the extremes this was difficult where the documents did not describe the ARG fully. The difficulty of classification at the margins and the impermanent nature of many ARGs means that the 'population' of ARGs uncovered by this means can be claimed to be only comprehensive, rather than exhaustive.

Through this process, a total of 175 ARGs in the county was identified and each was sent a questionnaire requesting both factual and normative information about their experiences of the contract culture and monitoring and evaluation. After two reminders, some 65 useable responses were returned, although not every return contained a response to every question. The responses across the taxonomy were as follows: state bodies (6 responses from 13), state quangos and trusts (5 responses from 9), state development agencies (0 responses from 3), state adjunct bodies (7 responses from 21),

voluntary not for profit bodies (16 responses from 41), community sector (7 responses from 19), social economy groups (9 responses from 5), partnerships or networks (11 responses from 50) and mutual aid groups (4 responses from 10).

Whilst it is recognised that proportionate responses across these categories is different (and in the case of state development agencies, there were no responses) it is nevertheless felt that the aggregate results do provide empirical insights into the nature of contract culture and monitoring and evaluation transactions costs at the local level.

## **6. The contract culture and the proliferation of funding streams.**

The contract culture originating in the New Public Management approach to service delivery noted in the introduction to this paper, was developed further under New Labour social capital agenda (Jochum, 2003). Whilst the motivation for this, according to the 1998 Local Government Act, was to 'promote fair and open competition so that Departments and Agencies can achieve best value for the customer and the taxpayer', it was to increase the transactions costs relating to decisions about rural service delivery considerably (Billis and Glennister, 1998), leading Moseley *et al* (2004) to term the funding arrangements for rural community decision-making a 'crowded canvas' (page 43), with a plethora of organisations offering different degrees of support through a complex set of mechanisms. For the South West Region of England, a mapping exercise by the South West Regional Development Agency in 2007 (Holloway, 2007) identified 133 discrete specifically rural funding streams available to ARGs, from a wide number of government departments and agencies, not including the rural expenditure of individual local authorities.

The institutional transactions costs in relation to these rural funding decisions fall in to five main areas: financial and contractual, management, mission drift, policy and politics and equity. In respect of *financial and contractual* issues, funding sources are so

diverse that it can be difficult to identify and gain access to them (Treasury, 2002). Tender or application documents are very variable (Parker *et al*, 2001) and contracts complex, often not allowing full cost recovery and offering only payments in arrears (Alcock *et al*, 2004). Steel (2005) notes that these processes place much of the contract risk with the supplier rather than the funder. But funders too, often have little control over bids. Funding pots can be undersubscribed resulting in wasted resources or the spending of money on lower priorities. They also can be oversubscribed leading to applications of merit being unfunded (Taylor, 1998). For many projects, too, the need to secure 'matched funding' is common: other partner funders are a condition of the bid. Commonly this matched funding is stipulated as having to come from the private sector. For rural community projects, this is commonly impossible (Moseley *et al*, 2004) but invariably has equity consequences: those with best access to finding can unlock more funding.

A second set of transactions costs in rural funding decisions relates to *management* issues. Organisations have commented that timescales for projects are often unrealistically small, and time spent on tendering, unrealistically large. The short term nature of much rural funding impairs the strategic direction of organisations (Carnegie UK Trust, 2006). The contract culture means that organisations also are now doing 'more for less' (Kumar, 1997) with short-term funding blighting long term employment and career progression placing an increasing reliance on voluntary effort (Russell and Scott, 1997). This has required voluntary effort to become more professional but also more exclusive and exclusionary. In management terms too, Russell *et al* (1995) note that contract funding has led to a decrease in donations and endowments as organisations are perceived to have more 'real' income.

*Mission drift* is a third institutional transactions cost relating to funding decisions. It arises where organisations spend more time seeking to secure funds for their own continuation, and concomitantly less time on securing funds for what they might



consider to be their core business (Treasury, 2002). In the extreme it can cause the abandonment of the mission as organisations 'go where the market is' (Taylor, 1998). Partnership bidding too, whilst strengthening the bid and reducing the competition, can compromise the missions of individual members of these partnerships (Cherrett, 1999). The transactions costs here are the additional costs associated with achieving the mission of the organisation that are caused by institutions that deflect the organisation from its mission.

The fourth set of institutional transactions costs in respect of the complex nature of funding decision-making relates to *policy and politics*. Smaller organisations are at a disadvantage in complex applications for rural projects because of a lack of resources and experience (Dalton 2000). They tend to bid for smaller projects where the proportionate cost of bidding is higher (Garrod and Whitby 2005). Public authorities also tend to favour the letting of larger projects on cost effective grounds, but most larger projects tend to be urban-based. (Wilding *et al*, (2004), Moseley *et al*, (2005)). There is rarely any recognition in contract letting that rural projects and service delivery are inherently more expensive to deliver (Yates and Jochum, 2003). Because this 'rural premium' commonly is not acknowledged in public authority contracts, contracted organisations invariably end up working 'on the cheap' (Yates, 2004). Hindle *et al* (2004) also note an increasing complexity of public bodies with different geographical boundaries in rural areas relative to urban ones, making contract negotiation more difficult.

A final set of transactions costs relating to complex rural funding decisions relates to *equity*: it is invariably the most articulate and able who are the most successful because they have the intellectual resources to bid successfully. These people are often those who need the funds least. Parker *et al* (2001) characterise bid finding as a beauty contest: managers who know the game attract the most resources and the gap between the most effective and the most needy widens. At the extremes this process can be

dispiriting and can lead to resentment. As Goodenough (2007) notes for an urban fringe area of Bristol that was unsuccessful in a City Challenge bid, quoting one of her interviewees (page 217):

*'The last real lot of broken promises was something called City Challenge. The last time we came twenty-first and it was the top twenty got through. That's when they had the riots. The first night was just basic anger, because everybody was so frustrated because there'd been so much work. Then we had three nights of um [pause], burnt out shops, burnt out cars, burnt out, well just riots in the streets. It was pretty dreadful. So then we had, you know, really [pause] frightened children, frightened parents and people just felt 'well it's not worth it', you know. (Don).'*

Of these five sets of transactions costs relating to complex funding decisions, the closed questions in the empirical survey focused on the first two: financial and contractual issues, and management issues. Some 54 ARGs responded to these issues and the results of this assessment are summarised in figure 3. Two aspects were covered in relation to finance and contracts. For the statement *'the sources of funding for our organisation are becoming increasingly complex'*, 80% of respondents strongly agreed or agreed and a further 11% neither agreed nor disagreed. For *'finding funding for our organisation is noticeably harder than it was ten years ago'* some 65% of ARGs strongly agreed or agreed, with a further 26% neither agreeing nor disagreeing.

Figure 3 near here - *Results of the Gloucestershire survey: financial and contractual issues and management issues.*

In respect of the second of these, management issues, three aspects were explored. In responding to *'our organisation spends more time in preparing bids for funding than it did ten years ago'*, 58% strongly agreed or agreed and a further 25% neither agreed nor disagreed. For *'funding for our organisation is available for shorter periods of time than it*

*was ten years ago* some 52% strongly agreed or agreed, and 32% neither agreed nor disagreed. Finally, for *'negotiating finance for our organisation takes longer than it did ten years ago'*, 44% strongly agreed or agreed and a further 26% neither agreed nor disagreed.

Very broadly, the transactions costs associated with the contractual and management issues relating to securing finance, appear to be highest within the Gloucestershire ARGs in respect of complexity of funding sources and then in order, finding sources of funding, the time spent on preparing bids, the short duration of funding and then less significantly, the time taken to negotiate funding.

Some 35 open comments were offered from ARGs in relation to financial transactions costs. These covered all five types of costs noted above, but are presented here in a positive to negative range. Of these comments, two were positive, both relating to the increased opportunities that presented themselves with a broader range of funding opportunities (*'an increased amount of funding comes from sources other than central government, particularly the National Lottery'* (respondent number 19)). Three comments were conditionally positive and all of these related to the increased opportunities presented by a wider range of funding streams, tempered by the increased complexity that went with determining their availability.

Nine comments were neutral because funding was not of significant concern to the organisations in question. Seven of these nine were membership organisations that had a set income from membership fees, predetermined on an annual basis. The majority of comments, 21, were negative. Of these, the most common were five comments relating to funding complexity (*'we have given up trying to get funding from some sources due to the complexities of the bid process'* (170)) and five on the difficulty of obtaining revenue as opposed to capital or project funding (*'set-up funding can be obtained: ongoing revenue funding is extremely difficult to find'* (176)). Three comments related to the

short duration of funding (*'funding is relatively short-term making planning difficult'* (82)), *'the impermanence of funding blights much forward planning'* (116)), and a further three on the declining overall amount of funding. Two ARGs commented that it was now simply becoming too time consuming to bid for funds (*'often it costs far more to get public funding in terms of time than is sensible when considering amount attained in the end'* (160)) and one suggested that funding was leading to mission drift: the ARG had to serve the needs of the state because it was the principal source of funding, rather than the local community, the reason it was set up.

## **7. Monitoring and Evaluation**

The monitoring and evaluation (M&E) of all aspects of public life have grown considerably over the past 25 years building increased costs into all public decisions (Alcock *et al*, 2004). For rural decisions, Midmore (1998) notes that there was very little at all prior to the mid 1980s but by the mid 1990s its complexity had grown with the Cork Declaration (Commission for European Communities, 1996) having a pervasive influence. This advocated that rural development must be local and community driven but also, importantly, that stakeholders themselves must be involved in the M&E process. As Pratt (2005) notes, this kind of participation clouded the very purpose of M&E as to whether it was about controlling resources and accountability on the one hand or about developing participatory learning processes on the other. Others have suggested too (Cherrett (1999)) that M&E has grown alongside the development of evidence-based rural policy and often is expected to generate this evidence. It is often not clear, however, what evidence is required to meet policy and M&E needs simultaneously.

This 'stakeholder' M&E approach has been incorporated into European rural programmes from LEADER+ through to the current Rural Development programme for England (Hyder Consulting *et al*, 2009). Complexity was further increased here because of the

stated need for M&E to capture the impact of a diverse range of local programmes (rather than individual projects), for which common, aggregate, quantitative, traditional economic evaluations were considered neither effective nor appropriate. A wide range of criteria developed relating to both process effectiveness and to outcomes (value for money, social and economic impact). Some programmes were evaluated against their objectives and others against broader welfare criteria. Some were evaluated against accountability to funders and others against the benefits accruing to the community. Many suffered from a lack of data by which to inform M&E exercise (NCVO, 2004). The diverse nature of M&E criteria in rural programmes made the nature and value of such processes, in aggregate, unclear and indeterminate as many voluntary organisations became funding rather than needs led (NCVO, 2004).

In addition, the small scale nature of many schemes under these programmes commonly has placed the onus on internal rather than external M&E, pushing the transactions cost to the point of delivery (Midmore 1998). The dominance of both funder accountability and funder criteria in the context of stakeholder involvement in M&E has meant that funders have got most of the benefits of M&E whilst most of the transactions costs have fallen to the funding recipients (Pratt, 2005) and these are disproportionately high relative to the amounts of funding involved (NCVO, 2004). The more recent desire on the part of the EU to make RDPE M&E 'ongoing' rather than *ex ante*, mid-term and *ex post*, pushes this transaction cost up further (European Network for Rural Development, 2010).

Whilst M&E has now become a ubiquitous component of rural project funding, the costs are rarely fully covered in the project budget and the criteria vary by funding stream. Organisations with a diverse range of funding can often find themselves in simultaneous pursuit of incommensurate criteria as a result. In this context, North (2005) suggests that M&E can compromise the purposes of organisations, and as a result they change

incrementally. But new organisations that replace old ones are no more likely to be successful than the old ones.

M&E in general also can lead to heavy workloads, often leading to the need to employ staff within organisations for this purpose. Both contractors and contractees in Alcock *et al's* (2004) study of rural voluntary organisations saw M&E as a 'bureaucratic nightmare'. M&E could become the sole management focus of the organisation and entirely disproportionate to the value of the project. This can be particularly acute, the smaller the organisation, where M&E can take as much time, absolutely, as in larger organisations, and where skills often are lower.

There are difficulties for clients too in measuring contract performance. In terms of *ex anti* assessments, with bid funding, applications are based on intentions rather than performance. It is often difficult to know how to assess the likelihood of prospective applications actually fulfilling their aspirations. For *ex post* evaluations at the end of the funding period, there are often very few sanctions for projects that have not met their stated aims.

Five questions were asked of ARGs in the questionnaire survey in relation to monitoring and evaluation and 59 of them responded to these questions. The results are summarised in figure 4 below. Some 52% strongly agreed or agreed that they operated within a clear set of performance indicators but a further 26% neither agreed nor disagreed. Some 21% did not operate within such performance indicators. Some 69% strongly agreed or agreed that they were internally monitored on a regular basis with a further 16% neither agreeing nor disagreeing. Only slightly fewer, 64%, strongly agreed or agreed that they were regularly externally monitored, with 13 % neither agreeing nor disagreeing. In relation to the issue '*the monitoring of our organisation takes longer than it did ten years ago*', 51% strongly agreed or agreed with this statement and a further 31% neither agreed nor disagreed.

Figure 4 near here - *Results if the Gloucestershire survey: monitoring and evaluation*

Finally, in respect of the issue *'the monitoring of our organisation is valuable in allowing us to make improvements to the way in which we operate'* 53% strongly agreed or agreed and a further 31% neither agreed nor disagreed. It would appear in general terms here that monitoring against performance criteria is common amongst ARGs, it is more comprehensive than it has been, but it is valuable for many ARGs as a means of informing performance change.

Of the 24 open comments relating to monitoring and evaluation, three comments were positive, seven were conditionally positive, eleven were neutral and three were negative. The three positive responses suggested that they saw monitoring as an essential part of their accountability and that they were successful at it (*We have been highlighted as a best practice organisation across the region for our balanced score card approach to monitoring and evaluation* (41)) and two noted that they did rather well out of it in terms of successful funding as a result of being monitored (*our monitoring is key to our viability* (94)).

The conditionally positive responses felt that monitoring was by and large a necessary evil: there might be too much of it now but there was too little of it 10 years ago. Some felt that monitoring was not too much of a burden and one felt that it was in decline anyway (*calls for reduced levels of monitoring are beginning to kick in* (80)). All of the neutrals suggested that monitoring was simply part of their normal business: there was nothing unusual about it at all. Of the three negatives, one felt that monitoring was placing constraints on their organisation that was compromising their mission. The other two simply felt overwhelmed by it: *'I am vice chair of (named ARG) and currently we are being externally audited by five different external bodies. We're snowed under with stuff!'* (65).

## **8. Conclusions.**

The growth in the financial bid culture and the monitoring and evaluation of rural decisions provide only two instances of a range of institutional transactions costs in rural decision-making in England. The results of the Gloucestershire survey suggest that both of these are growing as transactions costs. This is because processes of securing funding are becoming more complex, funding is harder to secure and more time consuming to bid for and also tends to be for shorter periods of time than historically. Monitoring, too, takes longer than it used to. These transactions costs are not universally seen in a negative way by those bearing them, however. In this survey, costs associated with financial bid complexities were considered a much greater burden than those associated with monitoring and evaluation, which conferred a range of benefits in relation to performance improvement.

In rural decision-making in England, other categories of North's (2005) classification of transactions costs are increasing too. In respect of organisational transactions costs, Barzell (1997) has suggested that these have grown without any deliberate planning and that transactions costs increase because organisational structures tend not to represent the most appropriate ones for best performance (Aston Business School, 2001):

*'A lot of success at the regional level is who you know and who your contacts are'*  
(NCVO, 2005, page 12).

Such costs also have increased because of difficulties in distinguishing between public interest and self interest within ARGs (Stevenson, 2003), a lack of clarity over organisational purposes, and a lack of accountability (Thompson et al, 1993). The sheer growth in the numbers of ARGs, however, has been the principal cause of the increased costs of transacting decisions in rural areas, not least in Gloucestershire (Author, 2009).



Transactions costs relating to belief systems also are on the increase in rural decision-making. This is for at least three reasons. The first is because decisions are to be made in the public (or community) rather than the private (or self) interest. Here there invariably are more divergent beliefs about what 'public interest' comprises, than private interest (Hutchins and Hazlehurst, 1992). The second is where decisions are of a social or 'lay' nature rather than a scientific or 'expert' nature. Here people feel more qualified to have a 'belief' when it does not run counter to expert knowledge: in matters of lay concern everyone has a point of view (Muers, 2004). The third is where the 'rules' of decision-making become informal (such as at the community level or through partnerships, networks and *ad hoc* groups) and a greater diversity of beliefs becomes evident about the process by which decisions should be made (McAreavey, 2006). These characteristics of belief systems increase the complexity (and cost) of rural decision-making as Rhodes' (1997) 'polity' becomes increasingly differentiated and a greater number of people have a role in decision-making as a result.

In the rural context, increasingly divergent belief systems can be seen, for example, in the domains of spatial planning (no development vs appropriate development (Curry and Owen, 2009)) and economic policy (growth vs endogenous development (Lowe and Ward, 2007)). They are divergent in agriculture and food production too: that rural is agricultural or that it isn't; that agriculture should be technically efficient and globally competitive or that it should be used to promote social inclusion (Martin *et al*, 2008) and/or 'short food chains' that confer rural development benefits for SMEs through moving production out of 'industrial modes' (Maye and Ilbery, 2006); that agriculture should be subject to free trade or that it should be protected, and so on. In the Gloucestershire rural decision-making survey, the most complex belief systems surrounded the notion of representativeness. Different ARGs commonly purported to represent groups and individuals for whom they actually did not have a mandate.

Finally in respect of North's (2005) classification of transactions costs much has been written about the costs of transacting decisions in relation to available knowledge and information (K&I) (Turner (2001), Arthur(1992), Beck (1986), Hayek (1952)).

Specifically in the rural context, these costs have been seen to relate to imperfect K&I, (Winter, 1995), the complex and diffuse nature of K&I (Röling and Wagemakers, 1998), the unregulated nature of K&I (Engel, 1993) and K&I overload (Curry and Winter, 2000). In the Gloucestershire survey the main transactions costs associated with K&I related to access to the internet, with the sheer volume of information and uncertainty as to its reliability being commonly expressed concerns. As with monitoring, however, the increased transactions costs associated with K&I were commonly accepted, because of the benefits that they provided.

The Gloucestershire survey therefore appears to support North's (2005) assertion noted at the beginning of this paper, that transactions costs are increasing at least in this particular western economy, not least in relation to decision-making in the public and community realms. And this increasing activity exacerbates transactions costs in public domain decision-making specifically in rural areas because, as Valentinov and Larsen (2010) assert, a number of these costs are specifically (and inherently) rural. The relative remoteness of rural areas and their relative population sparsity place particular burdens on community voluntary groups and other agents of rural governance. These organisations are required to make decisions and undertake the provision of goods and services in ways that are different than in urban areas, because remoteness and sparsity limit the development of markets. And in this context it is appropriate that governments recognise the particular difficulties facing rural areas in the implementation of policies of community empowerment.

By 2011, the United Kingdom Coalition Government was debating what they termed the 'paradox' (H M Government 2011, page 3) of transactions costs in the pursuit of smaller government. The development of a general policy of shifting the delivery of public goods

and services onto the voluntarily and charitable sector – and away from the central and local state - through “galvanising community action” (page 2) had been termed, in the run up to the general election in 2010, the development of the ‘Big Society’. By 2011 it had been recognised that much of the funding of the transactions costs of the voluntary and community sector in undertaking such activity originated from the central and local state. The paradox lay in the government resolve to cut such state funding as part of smaller government. In so doing, it would simultaneously reduce the ability of the voluntary and community sector to take over many of the traditional functions of the state that were require for the same ‘smaller government’.

Such a paradox would suggest that, as with successive United Kingdom central government administrations over the past 20 years, aspiration for ‘smaller government’ is invariably more about shifting the transactions cost burden of public domain decision making away from the state and onto Rhodes’ (1997) differentiated polity, rather than reducing it in any absolute sense.

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