



House of Commons
Communities and Local
Government Committee

Mutual and co- operative approaches to delivering local services

Fifth Report of Session 2012–13

*Report, together with formal minutes, oral and
written evidence*

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The Communities and Local Government Committee

The Communities and Local Government Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Communities and Local Government.

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

Additional written evidence may be published on the internet only.

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Summary

2012 is the International Year of Cooperatives. The Cabinet Office is promoting the use of employee owned mutuals across the public sector and the Department for Communities and Local Government, through its localism reforms, has provided both a stimulus and opportunities for co-operatives and mutuals to take over local services. Many local authorities themselves are examining mutual and co-operative approaches to working and delivering services. A small number of authorities are significantly changing their methods of work and organisation to mutual and co-operative approaches to the delivery of their services. It was against this background that we held our inquiry.

Although the prevailing winds favour mutual and co-operative approaches to delivering local services, we found less change than might be expected in local government. The lack of progress was surprising given the benefits claimed for mutuals and co-operatives. Their organisational structures offer employees, and in many cases service users too, a say in how the organisation is run and services are provided and adapted to changing local needs. They have the potential to provide greater customer satisfaction, an improved ability to innovate and a more motivated and productive workforce. While there is some evidence (from the health sector) to underpin these claims, the evidence for the benefits of mutuals and co-operatives operating in local government is limited. That may accumulate in time but we are in a “chicken and egg” situation with local authorities holding back until the evidence is stronger and the evidence cannot be produced until more authorities move to a mutual or co-operative approach.

The Government has encouraged mutuals, especially employee-owned mutuals. We welcome the Government’s proactive approach but it needs to go further to help remove the barriers we found that were preventing more mutuals and co-operatives from starting up. First, the Government has a responsibility to inform and educate financial institutions about lending to mutuals and co-operatives. We also see an opportunity for the Government to examine tax incentives for mutuals and co-operatives. In addition, we found a case for ensuring procurement rules gave the maximum flexibility in tendering for services so that mutuals and co-operatives are able fairly to compete with large companies and in-house providers.

From the handful of authorities adopting new approaches to their services a number of models with some or all of the characteristics of a mutual or a traditional co-operative are emerging. It must be right that no one model will fit the diversity of local circumstances in England but we see scope for the Government and local government itself to provide “off-the-shelf” models and guidance and advice. This is needed to reduce the confusion and risks that deter local authorities from considering using mutuals and co-operatives. Two key areas we identified were, first, that all new organisations had to remain accountable to the Council—this will usually be through a contract—and they have to be transparent in their operations. Second, through commissioning processes and subsequent oversight authorities must be able to prevent services from fragmenting and the beneficial use of local public assets has to be protected.

We see scope for greater co-ordination between the Government’s Mutuals Support

Programme, the Department for Communities and Local Government and the Local Government Association in gathering evidence on the operation of mutuals and co-operatives in delivering local services and making that available. The Government and local government have a choice: if they want more mutuals and co-operatives to develop, they must take action to provide support. Without additional assistance it seems likely that the potential which is obviously there will not be developed.

1 Introduction

1. The Government's policy to promote localism provides an impetus and opportunity for local authorities to explore new models for delivering services. We have been aware that in a number of local authorities co-operative and mutuals provide local services and that the Government has been promoting mutuals to deliver services across Whitehall.¹ 2012 has been declared by the United Nations as the 'International Year of Cooperatives' and there have also been indications that more local authorities may be considering adopting them.²

2. Significant claims have been made to support mutuals and co-operatives. The Labour Co-op councils group, a network of Labour Councils that are implementing co-operative principles, indicate that co-operatives provide a means of tackling public disengagement from local democracy,³ and the Government said that:

Progressive councils across the country are already revolutionising the way they operate, by giving councillors and communities more control over budgets and commissioning or encouraging small businesses, charities and social enterprises to bid for contracts. These approaches to running councils are becoming more common as local government addresses the challenges of rising social care costs, the need to cut the nation's deficit but also the need to engage with communities and increase trust and confidence in public services and local democracy.⁴

3. From the Government's perspective, mutuals fit with its 'Big Society' ambition which includes rolling out new rights across the public sector to provide employees with a right to take over and run the services they provide. The *Open Public Services White Paper* saw mutuals playing an important role in the future delivery of public services and set out a series of steps to support their introduction. The Government envisages that:

Ownership and control, through mutualisation, empower employees to innovate and redesign services around service users and communities, driving up quality. We will not dictate the precise form of these mutuals; rather, this should be driven by what is best for the users of services and by employees as co-owners of the business. Options include wholly employee-led, multi-stakeholder and mutual joint venture models. [...]

Wherever possible, we will increase choice by giving people direct control over the services they use. And where it is not possible to give people direct control, elected representatives should also have more choice about who provides services and how. This is the first principle of open public services.⁵

1 For example, "Lambeth Council launches as a co-op", *Social Enterprise*, 31 January 2011 and "Backing for mutuals to enhance public services", Cabinet Office press release, CAB240-11, 5 December 2011

2 For example, "Why are Co-op councils important?", *Co-operative Councils Network*, 9 September 2011

3 See website of co-operative councils website, www.councils.coop, and *Co-operative Communities: Creating a shared stake in our society for everyone*, LGA and LGA Labour Group September 2010.

4 Ev 134, para 7

5 *Open Public Services: White Paper*, Cabinet Office, July 2011, paras 6.15 and 1.12

Our inquiry

4. It was against the background of increased interest by local authorities and support across political parties for mutuals and co-operatives that we undertook this inquiry. Our main purpose is to investigate what local authorities are doing, to identify the benefits that such approaches might offer, to assess the risks and to examine the support being provided by Government to assist in setting up mutuals and co-operatives.

5. On launching this inquiry as well as calling for written memoranda we sent a questionnaire to every principal local authority in England, to ask how many co-operative or not-for-profit organisations were providing services or were being formed. We received 81 completed questionnaires in addition to 21 written memoranda.

6. We took oral evidence from councillors, local authority officers and employees of mutuals and co-operatives. We also took evidence from a range of academics, the Chair of the Cabinet Office's Mutuals Taskforce, Professor Julian Le Grand, and from Rt Hon Francis Maude MP, the Minister for the Cabinet Office, and Rt Hon Don Foster MP, the Parliamentary Under Secretary of State for Housing and Local Government. On 25 June we visited the Blenheim Gardens Estate in the London Borough of Lambeth to hear about Lambeth Council's vision of a 'co-operative council' and from representatives of local community groups. We thank all those who took the trouble to complete the questionnaire and to submit or give evidence, to Lambeth Council and the Blenheim Gardens Resident's Management Organisation for arranging our visit and to our specialist adviser Professor Tony Travers.⁶

This Report

7. Our Report addresses three main issues. First, it provides, in chapter 2, an overview of the mutuals and co-operatives that are in operation or are being developed by local authorities. Second, in chapter 3 we review the benefits that are being claimed for mutuals and co-operatives. The third issue we consider is the adequacy of the support for those setting up mutuals and co-operatives and the barriers and risks that appear to be preventing authorities from using mutuals and co-operatives. We cover the issues in three chapters. Chapter 4 covers the Government's support for mutuals and co-operatives. Chapter 5 examines barriers and chapter 0 risks in using mutuals and co-operatives to deliver local services. Our recommendations are concentrated towards the latter chapters of the Report.

6 Tony Travers declares the following interests: Remunerated employment at the London School of Economics (since 1987); Remunerated consultancy for organisations and institutions in the public, private and not-for-profit sectors; Member of commissions for public and private agencies (short-term and unremunerated); Speaker at conferences and seminars (some remunerated); Freelance writer for several newspapers and periodicals; Formerly member of the City Finance Commission, which undertook an inquiry "to review, explore and set out recommendations for the future of city local government finance with the aim of producing a system that fosters growth, is self-sufficient, fair, transparent and responsive to the needs of effective city governance in England."; the Commission reported in May 2011.

2 Co-operative models

The co-operative and mutual concepts

8. How should we define the terms ‘co-operative’ and ‘mutual’? In the UK, there is no legal definition of a mutual or co-operative and in some cases the terms are used interchangeably. It was easier to establish what a mutual or co-operative was not: a traditional in-house service or a company run for the benefit of external shareholders. Beyond that mutuals and co-operatives are both owned by a defined group of members such as employees, service users, customers or others with an interest in the business. They have a governance structure which gives members a say in how the organisation is run and they are often run for the benefit of its members with profits retained within the business or distributed to its members.

9. The Association for Public Service Excellence (APSE), a not for profit organisation that promotes improvements in local authority services, recently undertook a review of the use of co-operatives and mutuals by local authorities. APSE used the following definition from Mutuo, a not for profit organisation promoting new mutuals, for mutuals:

organisations which are owned by, and run for the benefit of their current and future members. These are different to social enterprises in that a large proportion of the business should be owned by either employees and/or the local community.⁷

10. A difference between mutuals and co-operatives is that any co-operative is expected to have subscribed to the statement of identity agreed by the International Co-operative Alliance which defines a co-operative as:

an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.⁸

This definition therefore provides a set of values and principles, beyond the organisational concept that defines a mutual, which a co-operative must put into practice. These cover the economic contribution from members and co-operation between co-operatives as well as wider organisational structures than mutuals that include voluntary and open membership.⁹ For the purposes of our Report we have used these definitions of co-operatives and mutuals. They exclude other not for profit organisations such as charities and many social enterprises.¹⁰

7 Mutuo, *What is a mutual?*, January 2009, quoted in *Proof of delivery? A review of the role of co-operatives and mutuals in local public service provision*, Association for Public Service Excellence (APSE), August 2011, p 12

8 “Co-operative identity, values and principle”, *International Co-operative Alliance*, 2012, <http://2012.coop/en/what-co-op/co-operative-identity-values-principles>

9 The full statement of co-operative identity is available on the *International Co-operative Alliance* website: <http://2012.coop/en/what-co-op/co-operative-identity-values-principles>.

10 An exception is *People 2 People*, described below at para 21.

A short history

11. Although there were earlier organisations with the characteristics of a co-operative in other countries, the ‘Rochdale Pioneers’ are generally regarded as the founders of the modern Co-operative Movement.¹¹ In 1844 workers in the cotton mills in Rochdale, formed the Rochdale Equitable Pioneers Society, in response to low wages and high prices of food and household goods.¹² They combined their financial resources to access goods at lower prices and established a shop at which customers could become members of the society and contribute to, and share, the mutual benefit it provided. The principles behind the Rochdale Pioneers were adopted across Europe and in 1862 Friedrich Wilhelm Raiffeisen founded the first credit union, in Heddesdorf, Germany, where members’ deposits served to provide loans for other members.¹³

12. In addition to the traditional co-operative where the profits are shared by customers and employees, there is the employee-owned mutual where profits are shared by the employees. John Lewis, which has annual gross sales of over £8.7 billion, is arguable the most well know example of an employee-owned mutual business in the UK and, though it is not the only model, it was referred to frequently in the evidence we have taken and by Government.¹⁴ A written constitution sets out the governance arrangements for the John Lewis Partnership which is owned in trust for its members. All permanent members of staff are partners who own the business. The Partnership is governed by three authorities: the Partnership Council which is directly elected by members; the Partnership Board which is appointed by the Partnership Council, and the Chairman. The constitution sets out the Partnership’s ultimate purpose of “the happiness of all its members, through their worthwhile and satisfying employment in a successful business”.¹⁵

Mutuals and co-operatives delivering services in the public sector

13. The Government has not prescribed how local authorities should use mutual and co-operative approaches to deliver their services. We wanted to find out what was happening. The Mutuals Taskforce—set up by the Government to engage with, challenge and promote the policy development work of Government to support the creation and development of Public Service Mutuals¹⁶—reported that around 20,000 employees work in public service mutual fulfilling contracts worth up to £1 billion.¹⁷ Francis Maude, Minister for the Cabinet Office, told us:

11 “History of the co-operative movement”, *International Co-operative Alliance*, 2012, <http://2012.coop/en/what-co-op/history-co-operative-movement>

12 “Rochdale pioneers”, *International Co-operative Alliance*, 2012, <http://2012.coop/en/co-op-movement/rochdale-pioneers>

13 “Friedrich Raiffeisen”, *International Co-operative Alliance*, 2012, <http://2012.coop/en/history-co-op-movement/friedrich-wilhelm-raiffeisen>

14 For example, Q 158 [Professor Le Grand], Q 182 [Phillip Blond], Q 199 [Lord Glasman], Q 328 [Francis Maude] Ev 102-07 [Mutuals Taskforce], Ev 127 [Winckworth Sherwood] and “Nick Clegg calls for ‘John Lewis economy’”, *BBC News website*, 16 January 2012, www.bbc.co.uk/news/business-16574558

15 “Our Principles”, *John Lewis Partnership website*, 2012, www.johnlewispartnership.co.uk/about/our-principles.html

16 *Public Service Mutuals: The Next Steps*, Mutuals Taskforce, June 2012

17 *Public Service Mutuals: The Next Steps*, Mutuals Taskforce, June 2012, p 22, and see also para 43.

I cover the development of mutuals right across the public sector. This started under the last Government, where there was a particular focus on health and social care. When the coalition Government was formed about two and a half years ago, I think there were eight public service mutuals in existence across the public sector. There are now about 50—it is a gradually rising number—with another 40 or so in the pipeline, so there has been significant growth. Across the range of the public sector, this is still relatively small but growing. They range in size from about 2,000 staff down to one of two people. [...]

Local authorities have tended to focus, although not exclusively, on the social care sector—more is happening in the area of youth services—and we are aware of 37 local authority projects, of which 14 are live. They have a wide geographical spread and cover a range of services including education, particularly the field of school support services, social care, social work, youth services, housing, leisure, community safety and the environment. We have a live project involving a fire brigade, with, I think, two other fire brigades interested in going down the mutual path.¹⁸

Don Foster, Parliamentary Undersecretary of State for Communities and Local Government, added that at present it was “very difficult” to get figures as to how many such organisations are providing services to local government.¹⁹

14. Our questionnaire to local authorities was designed to find out more. It asked the 353 principal local authorities in England for information on the extent to which they were using, or planning to set up, co-operative or not-for-profit organisations, to deliver services. We received 81 responses from local authorities and of these 43 appeared to be using at least one service delivery organisation that had a not for profit ethos or management structure resembling a co-operative or mutual model; 12 authorities were considering or were interested in using such organisations. However, because the unclear terminology which surrounds the issue of co-operatives and mutuals, we have noted these figures may have included some organisations run by or heavily dependent on volunteers, charities and charitable trusts, social enterprise companies and community organisations. The organisations varied and were delivering services such as social care, leisure, housing and financial services. A small number of local authorities described a strategic approach to delivering services through mutuals or co-operatives. In these cases it appeared that either it had been a long standing policy of the authority or a recent decision had been taken by the council to investigate the benefits of a mutual approach. The written memoranda also indicated that plans to establish co-operatives or mutuals were limited to a small number of local authorities. We received only five memoranda from local authorities or groups that provided examples of functioning mutuals and co-operatives.²⁰

15. The written evidence we received confirmed that, while a variety of approaches were under consideration, there was a degree of confusion which chimed with the recent report from APSE, *Proof of Delivery? A review of the role of co-operatives and mutuals in public service provision*, which found that “co-ops and mutuals mean different things to different

18 Q 312

19 Q 313

20 Ev 132 [Shropshire Council], Ev 86 [Staffordshire County Council], Ev 80 [Oldham Council], Ev 77 [Lambeth Council] and Ev 130 [Greenwich Council]

people” and that “too often, terms such as ‘co-op’, ‘mutual’ and ‘social enterprise’ are conflated and used interchangeably”.²¹ **The evidence we received suggested that a small number of local authorities are using or have established mutual or co-operative bodies to deliver their services. There appears to be confusion in local government and beyond about what constitutes a co-operative or mutual service delivery organisation.**

Mutual and co-operative models being used by local authorities

16. The governance and ownership structures of mutuals and co-operatives have been the focus of some research, which often focuses on the benefits that a particular model can deliver. We set out below evidence we took on the main models.

Employee-owned mutuals or co-operatives

17. If a limited company is more than fifty percent owned by its employees it is usually described as ‘employee-owned’. Employee-owned mutuals provide that employees have a controlling stake in the way that an organisation is run. The evidence from the Mutuals Taskforce examined the benefits from employee-owned mutuals. It gave the example of a social work practice, *Evolve YP*, formed by former staff of Staffordshire County Council. Donna Fallows, the Practice Lead and Senior Practitioner, at *Evolve YP*, is also a member of the Mutuals Taskforce. The Mutuals Taskforce explained how *Evolve YP* was formed.

Two years ago a group of social workers in Staffordshire decided to develop an entirely new and innovative way of providing services to look after children. They sought greater autonomy, so they could be truly responsive to the needs of the young people they served; they looked for renewed professional motivation; and they wanted real ownership over their work, combined with greater responsibility and accountability. Having worked for many years as part of the local authority, they decided to ‘spin out’ and set up a new employee-led mutual—a ‘social work practice’ that they called *Evolve YP*.

Over the past 24 months *Evolve YP* has gone from strength to strength. Currently 15 staff work in the Practice, consisting of 5 social workers, 4 personal advisers, 2 project workers and 2 office staff. The mutual is a social enterprise operating on a not-for-profit basis under contract to Staffordshire County Council. The organisation supports more than 170 children and young people aged between 12 and 25 years old.

Leaving the local authority to become a mutual has led to significant changes in the way the social workers approach their work, including innovations in the service provided. For example: Decisions being made closer to the young people reduces the time spent chasing authorisation from management. This approach encourages creativity and promotes good practice. *Evolve YP* is now sharing their experience and expertise by participating in the Mutuals Taskforce.²²

21 *Proof of delivery? A review of the role of co-operatives and mutuals in local public service provision*, APSE, August 2011, p 12

22 Ev 103-04

With this example in mind we took oral evidence from Cllr Ian Parry, Deputy Leader of Staffordshire County Council. Cllr Parry confirmed this positive assessment and that the staff had developed a number of beneficial innovative processes.²³ He told us that *Evolve YP* had been set up as a three year pilot and at the end of the pilot, the staff could return to the council's employment.²⁴

Two-way and multiple stakeholder models

18. In its 2009 report, *The Ownership State* ResPublica proposed a model of public service delivery, in which services are provided by enterprises led by frontline workers and owned by them and the communities they served.²⁵ In its evidence ResPublica explained:

For a true mutualisation of public services, local councils should facilitate the setting up of co-operatives co-owned and co-governed by the 'producers' and 'consumers'—the employees and users of the service. Without some sort of stake (financial or not) for service users, public service mutuals risk further empowering professionals who will always take the lead in deciding what is best for the communities. Service users would also become like the early co-operative 'traders' who believe that “the more you trade, the more you earn”, so that long term users of a public service could generate a stake for themselves. Such an evolved relationship between the state and the citizens would truly empower the communities in planning and running services. There are some successful cases of public service mutuals operating like this overseas, including Spain, Italy and Sweden.

A genuine co-operative model would draw together both the 'consumers' and 'producers' of public services, and enable the users of services to participate in service production and delivery. The reciprocity a public service co-operative offers to its consumers could generate tangible economic advantages at local level when the profits could be distributed amongst members as dividends and/or recycled back to the communities to support further public services, resulting in a sustainable accumulation of social and pecuniary capitals and substantially reduced reliance of citizens on state-funded models.²⁶

19. Lambeth Council has declared an ambition to become “the country's first cooperative council”.²⁷ It also favoured this 'multi-stakeholder' model and argued that employee-owned mutuals were “an alternative form of provider-led services and, in that sense, rather miss the point of the reform”.²⁸ It suggested that a more appropriate approach should involve both staff and users and it argued for a multiple stakeholder model where the employees and service users had a say in how an organisation was run. Lambeth gave the example of the Lambeth Resource Centre which provided service users a design service:

23 Q 47

24 Q 50–54

25 *The Ownership State*, ResPublica, 2009, p 6

26 Ev 110, paras 2-3

27 “Lambeth: a cooperative council”, *Lambeth Council*, 2012, www.lambeth.gov.uk/Services/CouncilDemocracy/MakingADifference/TheCooperativeCouncil/

28 Ev 78, para 1.6

In some circumstances we recognise that certain organisational models, such as employee mutuals, or user co-operatives or mutuals, can offer advantages by empowering users and staff to design or improve services, increase efficiency and enhance innovation. Primarily our approach is based on empowering users, not staff, on the understanding that the disempowerment of users relative to providers has created dependency and inefficiency. In this sense we disagree with the Big Society model which tends to emphasise employee mutuals, missing the point about empowering users. Two-way mutuals (empowering users and staff together) can meet this objective. The Lambeth Resource Centre, a day centre for learning disabled adults, brings together staff and service users in a mutual organisation to collaborate to commission and design services. The benefits are the greater involvement of citizens in the services they use, and a clearer incentive for collaboration between staff and citizens.²⁹

The Lambeth model will be covered in more detail from paragraph 25.

20. A predominantly *two-way* model has also been used to create Rochdale Boroughwide Housing, which is now the country's largest housing mutual. This is a membership based provider of social housing which took over the ownership of the homes formerly owned by Rochdale Council in March 2012, following a vote of support from tenants. It owns and manages around 13,750 homes. The ownership and governance arrangements were developed through discussion with tenants, employees and the council.³⁰

Multi-way models

21. Shropshire Council has been promoting a new social work practice, *People 2 People*, which will provide social work services for older people, people with physical disabilities, people with learning disabilities and their family carers. The scheme aims to help reduce people's long term reliance on social care, by giving people more choice and control over their support and support to maximise their independence.³¹ The scheme is being set up by a group of social workers under a not-for-profit social enterprise, independent of the council control with a governing board made up of council representation and users and people from small and medium-sized enterprises and the voluntary and community sector.³² Councillor Butler, the Cabinet Member for Flourishing Shropshire Communities, explained the impetus driving the change and that new service was aimed at:

reducing demand and making services more sustainable for communities and people more responsible for their own actions. [...] We have learnt from [*Evolve YP*] and put together a strong, transparent gateway process. If any staff mutual wants to look at spinning out, that is transparent and can be seen by the public, irrespective of what the service is. Through that process, we also consult with the voluntary and community sector, which is very strong in Shropshire. What we do not want to do is

29 Ev 79, para 3.1

30 "About US", *Rochdale Boroughwide Housing website*, 2012, www.rbh.org.uk

31 "New Social Work Practice pilot scheme taking shape", Shropshire Council press release, 7 September 2011

32 Q 268 [Cllr Butler]

reinvent the wheel when the sector is doing it anyway, because in staff spin-outs you can end up reducing sustainable social capacity in communities.³³

22. Others called for a variation of this model where the authority was a significant stakeholder in addition to service users and employees. Lord Glasman, an academic with an interest in social institutions, writing last year in *Public Finance*, proposed a ‘three-way’ model, with representation from the workforce, users and the local authority:

The Big Society offers two ideas of corporate governance for the public and private sectors. In terms of the state, it prefers a form of mutualisation, developed by Julian Le Grand, in which public services are provided by worker-owned enterprises. There is no balance of interest in the governance of the service provider, and users and funders are excluded. State-funded services have no representation on the board. This is in contrast to the Big Society view of private sector corporate governance, in which the worker has no status at all and managerial sovereignty prevails. [...]

Instead, a third of the mutual boards should be elected by the workforce. Another third should be represented by users (the involvement of users is an important part of community organising that needs to be undertaken to strengthen society and give voice to disorganised people). The final third of the board should be the local authority or the state, which has a legitimate interest in procedure, wider social goals and its integration into government policy.³⁴

Lord Glasman told us in evidence that there needed to be “a balance of interest” in the governance of organisation between users, the employees and the funders and that local authorities and the state did have interests and a participatory role.³⁵ In particular, he regarded the influence of the authority in organising and facilitating discussion between the other groups as key.³⁶

23. One concern we had was that the increased number of stakeholder groups could make it more difficult to reach a consensus resulting in paralysis in decision making. In response Lord Glasman cited the example of institutional change at Volkswagen and Rover in the 1990s where the lack of engagement of the workforce and users led to culture in which there was not enough leadership, reciprocity or responsibility in the relationship between core groups. He argued that a position of negotiation between stakeholders was far more effective as a strategy than imposition by a single stakeholder because it was binding on all and effective in sustaining a course of action.³⁷

24. Greenwich Leisure is a staff-led ‘Leisure Trust’, which follows the multiple stakeholder model structured as an Industrial and Provident Society for the benefit of the community. The members of this co-operative, and therefore owners of the company, are the employees of Greenwich Leisure, and the trust’s board includes representation of other stakeholders, including the local communities, borough councils and trade unions

33 Q 267

34 Lord Glasman, “Something old, something blue”, *Public Finance*, 31 May 2011

35 Q 180

36 Q 181

37 Ev 115, question 2

alongside democratically elected members of staff. Greenwich Council's memorandum explained:

Elected Members [...] made the decision in 1993 to transfer the operation of the Council's Leisure Centres into an Industrial and Provident Society in 1993, Greenwich Leisure Limited (GLL).

In the near 20 years since, GLL has since expanded beyond the Royal Borough's boundaries and currently delivers leisure and sports development services to 17 local authorities. It has become the operator of the Crystal Palace sports complex and recently proved successful in open competition in being selected to operate the Olympic Aquatics Centre and Handball Arena after the London Olympics.

GLL is now probably the most successful social enterprise in the country. It has a Board which encompasses service users, staff and trade union representation as well as local councillor membership.

In April 2012, GLL took on the responsibility for managing the Royal Borough's Library and Information Service which is an innovative approach which will further develop experience of this model of service delivery. GLL retains close organisational links with the Borough and three Members sit on its Board as co-opted members. The Borough also commissions a wider variety of services from the voluntary and social sector.³⁸

The Lambeth model—co-production

25. Lambeth Council's approach goes beyond the example cited and that of other local authorities. It has looked not only at delivering services through co-operative bodies but reforming the way the authority operates along co-operative principles. Lambeth describes the 'cooperative council' as its "big idea for local government" and "giving people more involvement and control of the services they use and the places where they live by putting council resources in their hands".³⁹ Lambeth's evidence to us described the advantages of its 'co-operative council' approach:

Over the medium-term improved service design, enhanced commissioning practice, better collaboration with partners, and a clearer focus on citizen priorities has the potential to deliver improved value for money for citizens and taxpayers and greater social returns on investment. By working with communities to build their capacity and resilience they will be better placed to work with one another to meet their own needs and withstand the turbulence of the current economic downturn. The whole system can benefit from this approach and there are those benefits that are realised as a direct result of the type or nature of the provider. A good example of this is if a parent gets involved in the Young Lambeth Trust, the skills they would acquire as

38 Ev 130

39 Introduction to cooperative council from Steve Reed, the leader of the council, *Lambeth Council website*, 2012, www.lambeth.gov.uk/Services/CouncilDemocracy/MakingADifference/TheCooperativeCouncil/index.htm

part of that experience may enable them to improve their personal employability and achieve their wider aspirations in life, keeping the value in the community.⁴⁰

The concept was explained during our visit to the Blenheim Gardens Estate in Lambeth and by the Council Leader Steve Reed who, when he gave oral evidence, summarised the approach:

closer co-operation requires a rebalancing of the power relationship, so that you can move from an adult or a parent/child relationship between the provider and the user to a more adult/adult relationship. Rebalancing the power relationship in that way will quite often mean delivering services in different ways and creating different structures to deliver them than we have had currently. That may involve co-operatives, but it may not.⁴¹

26. In considering the role a range of organisations can play in providing services, Lambeth emphasised the importance of democratic accountability and the protection of the public interest:

although this diversity of provision can bring benefits, Lambeth recognises its unique position as the democratically elected body in the borough, and its responsibility to ensure that the public interest is protected throughout the commissioning process. Regardless of the status of the provider, the council will need to ensure that public services remain accessible to all, and that providers support the philosophy and principles of the co-operative council and act in the public interest.

Effective accountability is therefore a pre-requisite for public confidence in the cooperative council. As others have recognised, accountability is increasingly complex in today's public service provision. Local councillors have a crucial role to play through scrutiny mechanisms, and as community-led commissioning activity increases, councillors are also likely to have a role in ensuring accountability at the ward level. Regulation, inspection, contracts and elections will all continue to provide mechanisms for accountability.⁴²

27. This vision of a changed role for the local authority and councillors chimes with the Government's ambition as set out in its memorandum to us:

Over a number of years, the perception of the role of councils has moved towards that of a service provider as they have been required to deliver an increasing number of 'one size fits all' services and to shoulder a growing burden of compliance. By returning autonomy to local government, we are giving them the freedom to focus on representing the wishes of their communities and providing leadership in their area. [...]

Progressive councils across the country are already revolutionising the way they operate, by giving councillors and communities more control over budgets and

40 Ev 78–79, para 2.2

41 Q 2

42 Ev 79, paras 3.4–3.5

commissioning or encouraging small businesses, charities and social enterprises to bid for contracts.⁴³

28. The Institute of Local Government Studies (INLOGOV) suggested that

Lambeth might be described much more accurately as the ‘Co-production Council’, since that principle has driven its overall strategy more than a commitment to any particular form of service delivery, such as co-ops or mutuals as providing organisations.⁴⁴

INLOGOV defined ‘co-production’ as “professionals and citizens making better use of each other’s assets, resources and contributions to achieve better outcomes or improved efficiency”.⁴⁵ INLOGOV called for the “promotion of user and community co-production of public services” and argued that co-production was closely linked to the use of co-operatives and mutuals in public services:

in practice there is a very strong link between the principle of co-production and the strategy of using co-operatives and mutuals to deliver services. This is because successful co-production does not usually arise and grow spontaneously—it needs a set of intermediary organisations which can capture the interest of users and other citizens in the co-production approach and then match the offers which these potential co-producers are prepared to make to what other service providers actually need—whether those service providers are in the public, private or third sectors.⁴⁶

29. The co-production model does not require services to be delegated outside the authority but is more concerned with service design so that the principles of co-operatives—that is engagement with a broad section of stakeholders—are adopted in not only commissioning and designing services but ultimately in running the authority.

30. We observed a range of approaches being adopted by a number of local authorities. Although the models we have seen do not always fit with the traditional model of a co-operative, there is a common thread to the models authorities are adopting for mutual and co-operative delivering their services: an objective to switch service procurement to a process that helps users define their needs and provides those delivering services with a flexibility to respond to these needs. Some authorities, for example Lambeth Council, have taken the concept and applied it generally to commissioning and shaping services. We are not sure that all the arrangements put in place in Lambeth, an inner London borough, will fit authorities outside the capital. Nor were we clear why the GLL model, which was cited as a clear success, has not been replicated. It may be that each will show the path ahead without becoming the model for others. It will be important to avoid an overly prescriptive definition of mutuals and co-operatives. There is no one size fits all approach. The ethos underlying the approach is not exclusive to a particular model. As we consider later in this Report, different models might lend themselves better to the delivery of specific types of services and some models might be appropriate to

43 Ev 134, paras 5, 7

44 Ev 88

45 As above

46 Ev 88–89

particular local authority services and sit better with authorities across the political spectrum.

3 The evidence for co-operative and mutual approaches

The benefits of mutuals and co-operatives

31. The Mutuals Taskforce pointed to a number of benefits from mutuals:

- greater customer satisfaction;
- greater ability to innovate;
- lower production costs and generally higher productivity;
- increase resilience; and
- job creation.⁴⁷

The Taskforce described these as “intrinsic benefits” to the employees and “instrumental benefits” to the delivery of services and that most importantly the “higher morale and greater commitment of employees leads to improvements in the quality of service and the efficiency with which it is delivered”.⁴⁸ The Minister, Francis Maude, took the same view: “by going down the mutual path you get a better outcome”.⁴⁹ We undertook an assessment of the evidence for these and similar claims, especially from local authorities.

Evidence of benefits

32. The submission from Winckworth Sherwood, an organisation that provides legal services to not for profit organisations, identified similar benefits that can be achieved from “non-profit distributing organisations” (NPDOs), which includes mutuals and co-operatives, delivering local services as follows.

- Single focused body able to concentrate upon delivery of its core business. Such focus and freedom provides an exciting opportunity for the management team to use their innovative skills.
- The NPDO could, without changing its community and social obligations, become a business-led organisation able to make quick decisions freed from the sometimes lengthy local government decision-making mechanics.
- Opportunity on transfer for one-off cultural change with clear goals to develop the NPDO and its services.
- Increased probity and better governance.

47 Ev 103

48 Mutuals Taskforce, *Our Mutual Friends*, December 2011

49 Q 316

- Community involvement and service user engagement in the management of the NPDO through membership as well as creating user groups for individual services or facilities.
- Staff involvement in the direction and administration of a focused NPDO.
- An NPDO running the existing facilities could contribute towards the local authority's social and economic agenda and, most significantly, contribute towards the economic regeneration of the local area.
- An NPDO could access private finance for improving and enhancing any of the facilities or services, such finance not generally being available to a local authority.
- The local authority could still maintain involvement with the NPDO through grant funding and, possibly, membership of the NPDO's board.
- If the NPDO was charitable, a status not available to co-operatives generally, it would be able to obtain mandatory relief for national non-domestic rates at 80% and apply for discretionary relief for the remaining 20%. In addition, charitable NPDOs have other fiscal advantages, including exemption from corporation tax and gift aid on donations.
- Opportunities to maximise efficiencies and cost savings with adoption of better business practices.⁵⁰

To support these claims they cited research undertaken by the Employee Ownership Association which showed that companies owned by their employees were more resilient than conventionally structured companies, outperforming the market during the downturn and demonstrating a lower risk of business failure. Winckworth Sherwood also referred to research from the Innovation Unit (a not-for-profit social enterprise that aims to support innovation in public services), which showed how employees taking ownership of public services would yield exactly the same benefits as those seen in business, by creating the “engagement ethic” which was currently missing from local authority run public services.⁵¹

33. We asked Simon Randall, a consultant at Winckworth Sherwood and Chair of the Conservative Co-operative Movement, about the relevance of applying evidence of the benefits of mutuals operating in the private sector to the public sector. While the evidence was mostly based on employee-owned organisations—that is those not involved in delivering public services—he said that he had surveyed a number of charitable leisure trusts with substantial staff involvement in the service and noted there was some evidence that employee-owned bodies were more resilient and created more jobs.⁵² Ed Mayo, Secretary General, Co-operatives UK, added that:

the majority of evidence came from the private sector. [...] The spin-outs that we have seen that are high performers, as may have been mentioned before, are those

50 Ev 125, para 3.2

51 Ev 127, paras 5.5-5.6

52 Q 222

that have emerged and survived. They have a good story to tell, but they are relatively small in number and therefore the evidence may be relatively anecdotal.⁵³

34. In contrast, Mark Bramah from the APSE, which had recently undertaken a review of the role of co-operatives and mutuals in local public service provision, recognised that, although there are theoretical benefits of adopting mutual approaches, they had found “very little evidence in practice of successful public sector mutuals”.⁵⁴

35. We received submissions from a number of local authorities on the benefits of their mutual or co-operative approaches. Councillor Butler from Shropshire Council, told us that the Council’s *People 2 People* project had resulted in “greater community and customer satisfaction” and that there was a real prospect of reducing demand on the public sector because of greater involvement from the voluntary and community sector.⁵⁵ Donna Fallows, the practice leader at *Evolve YP*, told us that the University of Central Lancashire had been monitoring the performance of the practice and that it was performing better than local authority services. She pointed out that within the practice staff were happier:

the morale of the team has been absolutely massive. It was ownership; it was ours. Because it is ours, we work that little bit harder. There is the dedication of the staff, and morale is absolutely fantastic. We have lost no staff since we have been operational. We have been more creative and accountable and, I suppose, more conscious of spending. When have you ever known a local authority be out of the red? We are operating in the black because we have been more creative. It has really worked for us.⁵⁶

36. We heard of similar qualitative improvements in other local authorities. Lambeth set out what it saw as the benefits of its ‘co-operative council’ model. It expected that, over the medium-term this would include improved service design, enhanced commissioning practice, better collaboration with partners, and a “clearer focus on citizen priorities”.⁵⁷ When asked for evidence of these benefits Councillor Reed, the Leader of Lambeth Council, was unable to provide any quantitative evidence but explained that this approach was responsible for improvements on the Blenheim Gardens Estate, which was now being run by a ‘co-operative’ residents’ management association. He said that on the estate:

the Mall that was a drug-dealing corridor has now been turned into a pleasant green space that the entire community uses, including young people. They have community growing schemes on there. The level of rent collection has gone from below the average in Lambeth to close to 100% per annum. The quality of the repairs service is so high that I no longer get any complaints about it. I have not had a complaint for years in my casework bag, and I get many from estates that are still directly run by the council.⁵⁸

53 Q 222

54 Q 104

55 Q 254

56 Q 280

57 Ev 79, para 2.2

58 Q 14

37. The Ministers, Francis Maude and Don Foster, accepted that it was early days and that there was little evidence for successful co-operatives and mutuals delivering local authority services. However, Francis Maude drew parallels with benefits in health services.⁵⁹ The Mutuals Taskforce's final report detailed some:

- Central Essex Community Services has significantly reduced staff sickness rates. The number of days lost due to sickness absence per Full Time Equivalent (FTE) employee has decreased by approximately two days per employee since they spun-out in April 2011.
- Also in Central Essex Community Services, a staff survey conducted in October/November 2011 showed that 90% of staff looked forward to going to work, compared with 86% in 2010.
- NAViGO, a community interest company running mental health and associated services in North East Lincolnshire, has experienced reduced absenteeism and saved £80,000 as a result.
- Central Surrey Health provides therapy and community nursing services to central Surrey's population. Staff motivation and satisfaction improved with 98% of co-owners say they are willing to go beyond what is normally required. The industry norm is 84%.⁶⁰

38. The evidence for the benefits of mutuals and co-operatives operating in a local government is limited. However, the benefits that have been observed from mutuals operating in the public sector and the health sector suggest that these approaches have the potential to offer improvements in delivering local authority services. In particular, the motivational benefits provided by employee ownership, the response to users' needs provided by enhanced user engagement and the success of established organisations such as Greenwich Leisure persuade us that more local authorities should be considering these options.

59 Qq 314-16

60 Mutuals Taskforce, *Public Service Mutuals: The Next Steps*, June 2012, p 14

4 The Government's role

39. Promotion of mutuals and co-operatives across the entire public sector was a key policy of the Coalition's Programme for Government:

We will support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services[...]

We will give public sector workers a new right to form employee-owned co-operatives and bid to take over the services they deliver. This will empower millions of public sector workers to become their own boss and help them to deliver better services.⁶¹

The mechanisms to do this have been developed by the Cabinet Office and were set out in the *Open Public Services White Paper* in July 2011.⁶² Some parts of the public services are further advanced than others. The Department for Health has the greatest experience delivering health services through mutuals which have become a significant part of this sector.⁶³ The Department for Communities and Local Government (DCLG) has the lead on mechanisms for delivering local authority services through mutuals and co-operatives, the key example of which is the Right to Challenge in the Localism Act 2011.

The Right to Challenge

40. The Right to Challenge came into operation on 27 June 2012.⁶⁴ It provides both public sector employees and the public with a right to form organisations which can bid to deliver a local authority service and is a mechanism by which new mutuals and co-operatives will be able to access and take on local authority services.⁶⁵ DCLG, which has launched a community rights website to provide guidance and support for those interested in making a challenge, explains that the right:

enables voluntary and community bodies, employees of the authority that wish to form a mutual organisation to deliver the service, and parish councils to express an interest in running a local authority service. The authority must consider expressions of interest and, where they accept them, run a procurement exercise for the service. The Right will hand the initiative to groups with good ideas about how services can be run differently or better, ensure their ideas get a fair hearing, and that they get the time they need to prepare effective bids for services.⁶⁶

61 Cabinet Office, *The Coalition: our programme for government*, May 2010, para 27

62 Cabinet Office, *Open Public Services White Paper*, July 2011

63 Mutuals Taskforce, *Our Mutual Friends*, December 2011

64 "Community Right to Challenge", *Department for Communities and Local Government website*, 2012, www.communities.gov.uk/communities/communityrights/righttochallenge/

65 Department for Communities and Local Government, *Community Right to Challenge*, September 2011, p 4

66 Community right to challenge, *Department for Communities and Local Government website*, June 2012 and Department for Communities and Local Government, *Community Right to Challenge*, September 2011, p 4

A successful Right to Challenge will initiate a procurement exercise which invites other interested parties to compete for the service contract.

Public Services (Social Value) Act 2012

41. A local authority procurement exercise is usually subject to European procurement procedures and will soon be subject to rules under the Public Services (Social Value) Act 2012, which are expected to be implemented through secondary legislation in early 2013. The Act requires that procurement exercises over a certain threshold examine how the economic, social and environmental well-being of the relevant area will be affected by any proposals.⁶⁷

Mutuals Information Service and Support Programme

42. As well as statutory rights the Government is providing advice and support. In 2011 the Cabinet Office established the Mutuals Information Service to “provide ready access to information” to those people interested in setting up employee-owned mutuals to deliver public sector services.⁶⁸ It is being run alongside a Mutuals Support Programme, which takes referrals from the Information Service and is designed to help “promising” mutuals develop. It aims to provide professional expertise and advice focussing on the “pre-spin-out” phase of mutualisation. The Programme is also designed to gather and share knowledge and build “a strong evidence base of what works in this innovative area of service delivery”.⁶⁹ The Government has also committed to invest at least £10 million to support some of the most promising and innovative mutuals to investment readiness through the Programme by procuring suppliers to deliver the support needed for organisations interested in spinning out into a mutual.⁷⁰

The Mutuals Taskforce

43. The Cabinet Office also established the Mutuals Taskforce to “engage with, challenge and promote the work of Government to support the creation and development of Public Service Mutuals”⁷¹ as part of the open public services policy. The Taskforce published its final report *Public Service Mutuals: Next Steps*, in June 2012.⁷² The report sets out recommendations to the Government to increase the size and scope of the Government’s work in encouraging and supporting mutuals. We will pick up on some of the recommendations of the Taskforce and the work of the Mutuals Support Programme and the Mutuals Information Service later in our Report.

67 Public Services (Social Value) Act 2012, Explanatory Notes, www.legislation.gov.uk/ukpga/2012/3/notes/division/2

68 HC Deb. 19 June 2012, col 758

69 Further Information on Mutuals Support Programme”, *Cabinet Office website*, 2012, <http://mutuals.cabinetoffice.gov.uk/further-information-mutuals-support-programme>

70 Mutuals Support Programme”, *Cabinet Office website*, 2012, <http://mutuals.cabinetoffice.gov.uk/further-information-mutuals-support-programme> and HC Deb, 24 May 2012 , col 823W

71 “About the Mutuals Support Programme”, *Cabinet Office website*, 2012, <http://mutuals.cabinetoffice.gov.uk/about>

72 Mutuals Taskforce, *Public Service Mutuals: Next Steps*, June 2012

Cross-departmental working

44. When we asked Francis Maude how the two departments' work had been joined up to avoid duplication and conflict and develop common goals. He told us:

Some of the projects we support are local government ones, and CLG feeds into that so we consult them along the way, but we are at pains to ensure that we are not constantly paying the same advisers to produce the same advice to different bits of the public sector. Doing it centrally is essential.⁷³

45. The Local Government Association (LGA) is supporting councils to help them to develop 'bottom up' services through a "confident and in-depth knowledge of local community priorities and potential local providers".⁷⁴ We wanted to know how the Cabinet Office might learn from or assist the work we had seen in local authorities, and this work of the LGA, some of which went beyond the scope of the Mutuels Support Programme. When we questioned Francis Maude why work in the Cabinet Office had been restricted to employee-owned mutuels although we had heard evidence on the benefits of a range of mutual and co-operative models, he explained:

that was what we thought was the thing that would deliver it most quickly. That was what we had in mind, as mutuels were employee-owned/led co operatives. All the evidence is that when those organisations become employee-owned/led you get a dramatic improvement in productivity. Often, with conventional outsourcing to a commercial provider there will be productivity improvements but they have to be ground out, and it takes time. With employee ownership, you can see a dramatic transformation almost literally overnight.⁷⁵

Professor Le Grand, Chair of the Mutuels Taskforce, said that the Taskforce was "thinking about multiple stakeholder models"⁷⁶ but that "on the whole the ones we are dealing with are employee controlled".⁷⁷ He did recognise that:

If you have a complete monopoly and you are handing over a service completely to the employees, questions arise [...] about accountability to users as well as accountability to councillors, having nowhere else to go. It is not impossible but we think maybe something like a multiple stakeholder model would be more appropriate in those contexts, where you have a degree of employee control but you also have community involvement and possibly other forms of stakeholder involvement.⁷⁸

46. We share the Government's ambition of encouraging the setting up of more mutuels but we have a number of concerns. First, the Cabinet Office's work so far has been limited to employee-owned mutuels when we have detected interest within local

73 Q 333

74 Ev 145, section 2

75 Q 315

76 Q 131

77 Q 127

78 Q 130

authorities in setting up a wider range of mutuals and co-operatives. Second, we are not convinced that the Cabinet Office and the Department for Communities and Local Government have been operating in step. The links between the Cabinet Office and the Department need to be strengthened so that the Cabinet Office takes full account of the potential for mutuals and co-operatives to deliver services in local government and to ensure that guidance and support is made available to all those interested in taking on local services. We see a role for the Local Government Association in providing the link between this work and local authorities. We welcome the Government's plan to create 15 Mutual Ambassadors and we hope that this will contribute to joined up working.⁷⁹

47. The Mutuals Support Programme is collating information that could be equally valuable to people considering setting up mutuals and co-operatives beyond the scope of the employee-owned mutuals it currently assists. We noted earlier that the evidence for the success or otherwise of mutuals and co-operatives in delivering local authority services is limited. In our view, the absence of evidence is likely to be holding some authorities back from investigating mutual and co-operative options. We see scope for greater co-ordination between the Mutuals Support Programme, Department for Communities and Local Government and the Local Government Association in gathering evidence on the operation of mutuals and co-operatives in delivering local authority services and making that available to other authorities.

Regulation

48. Finally, there is one issue where we see a role for Government: although not addressed explicitly in much of the evidence we received, it was an implicit concern throughout. It is the extent to which local authorities may have conflicts of interests and how they should manage them. Local authorities will need to take on a number of roles including incubating mutuals and co-operatives, setting up contracts with mutuals and co-operatives and being the local regulators of services. It will require expertise and skill to manage these roles and avoid conflicts of interest arising. **We see the need for guidance, particularly in safeguarding their regulatory roles, to ensure that local authorities avoid conflicts of interest, perceived or real, in setting up and supporting mutuals and co-operatives and in subsequently entering and enforcing contracts with these bodies. In our view local government itself led by the Local Government Association should take the lead in preparing this guidance.**

79 "Francis Maude: fledgling #mutuals to get help from 15 inspiring individuals under new Mutuals Ambassadors Programme", 7.32 am 18 October 2012, <http://twitter.com/cabinetofficeuk/status/258938711352422401>

5 Barriers to co-operatives and mutuals

49. In this chapter we examine and the barriers that local authorities and those wishing to set up mutuals and co-operative are facing and how they could be reduced.

Finance

50. We heard evidence of mutuals facing difficulties in securing the finance needed to start up at a size where they would not be squeezed out by in-house providers and large commercial companies. Staffordshire County Council in its written evidence pointed out that “significant time, effort and resource” was needed to establish a mutual or co-operative.⁸⁰ Oldham Council suggested that start up costs were a barrier to establishment of co-operatives and mutuals:

When co-operatives and mutuals are established, there can be significant costs associated with setting-up the new organisation. This includes, for example, governance costs and implementation-related costs, such as procurement. [...]

Securing external funding, including working capital, can be difficult.⁸¹

51. Winckworth Sherwood echoed these concerns and suggested that funding from Big Society Capital might offer a solution:

Any entity will require seedcorn capital and thus the [organisation] will be looking either to the local authority to provide such capital, although there is funding available from the Government to help with the initial tranche of entities created under the Right to Challenge. However, conventional bank finance or funding from Big Society Capital and other similar institutions may likewise be required.⁸²

Simon Randall, a consultant at Winckworth Sherwood and Chair of the Conservative Co-operative Movement, said that more needed to be done to provide easier access to capital and that banks needed to be educated about the importance of co-operatives or staff-owned organisations so more money could be made available for them to take over these new roles.⁸³ Ed Mayo from Co-Ops UK agreed:

By and large, we do not have financiers and investors who understand the co-operative and mutual models very well. We find it can be difficult for people to go through the hurdles in terms of the understanding.⁸⁴

Similar evidence was also recorded by *The Nuttall Review of Employee Ownership* in July 2012 which was conducted for the Department for Business Innovations and Skills. The review noted that at a practical level it was not easy to find someone to talk to at a bank or

80 Ev 87

81 Ev 85, para 3.6

82 Ev 128, para 6.4.2

83 Q 241

84 As above

other financial institution about financing an employee buy-out and that there were few if any investment products and investment funds that were suitable for employee ownership.⁸⁵

52. Lord Glasman suggested that new regional banks might be in a position to finance mutuals and co-operatives as they would be barred from lending outside their region thus making capital available locally to businesses.⁸⁶ The Mutuals Taskforce suggested another route:

there is potential to further increase the availability of finance, including through the strengthening and growth of the social investment market. In this respect, the establishment of Big Society Capital (BSC) is welcome.⁸⁷

And it recommended that:

Big Society Capital (BSC) should conduct an analysis into the size and scale of the mutual sector to assess the potential opportunities and barriers to investing in mutuals.⁸⁸

53. BSC is the first social investment institution of its kind. It has been capitalised with the English portion of the estimated £400 million in unclaimed money left in dormant bank accounts for more than 15 years.⁸⁹ When we asked the Minister, Francis Maude, what influence the Government had over BSC, he told us that “very deliberately” it had been set up so that the Government had none, but he added that those organisations it was entitled to support would “undoubtedly” include public service mutuals.⁹⁰

54. Finance for starting up mutuals and co-operatives is in short supply. Encouragement, advice and guidance will come to nothing without finance. The Government has a responsibility to inform and educate financial institutions, including Big Society Capital, about lending to mutuals and co-operatives and we recommend that it establish a programme to this purpose.

Taxation

55. The Mutuals Taskforce also concluded that the start-up costs of mutuals and co-operative might be eased by providing a degree of tax relief. It concluded that as part of its Employee Ownership Review HM Treasury should explore statutory reliefs on gains for employee benefit trusts and other employee-owned businesses.⁹¹ In the 2012 Budget the

85 Department for Business, Innovations and Skills, *Sharing Success: The Nuttall Review of Employee Ownership*, July 2012

86 Regional banks would be barred from lending outside their region thus making capital available locally to businesses and households. They are discussed in more detail in the following article. Lord Glasman, “Why we need regional banks”, *Progress Online*, 25 March 2011, www.progressonline.org.uk/2011/03/25/why-we-need-regional-banks/

87 *Public Service Mutuals: The Next Steps*, Mutuals Taskforce, June 2012, p 38

88 *Public Service Mutuals: The Next Steps*, Mutuals Taskforce, June 2012, p 43

89 *Growing the social investment market*, Cabinet Office website, 2012, www.cabinetoffice.gov.uk/content/growing-social-investment-market

90 Q 349

91 Mutuals Taskforce, *Public Service Mutuals: The Next Steps*, June 2012, p 38

Chancellor of the Exchequer announced that HM Treasury would conduct an internal review to examine the role of employee ownership in supporting growth. In assessing the evidence, HM Treasury’s review will examine options to remove barriers to its wider take-up, including barriers relating to tax policy and administration.⁹² When he gave evidence Francis Maude advised that the Treasury’s review was still ongoing and added that he did not consider tax incentives to be “the be all and end all” in promoting mutuals and that cultural and behavioural barriers were more important.⁹³ We do not share the Minister’s view. **In our view tax incentives have an important role to play in helping mutuals and co-operatives to get established. Mutuals and co-operatives experience difficulties in establishing start-up finance, and any greater access to finance must assist their viability. In its review of employee ownership we would expect the Treasury to examine support not just for entirely employee-owned mutuals but also other broader co-operative models which include user and local authority stakeholder groups. We look forward to the findings of the Treasury’s review of employee ownership.**

56. Francis Maude also told us that the absence of a legal definition for mutuals and co-operative could make it difficult to provide tax benefits to these classes of organisations.⁹⁴ Simon Randall said that the legal complexities around co-operatives were a deterrent to their establishment and that the legislation for co-operatives needed to be reviewed and consolidated into one co-operatives statute to provide a clear definition and a simple model for organisations follow.⁹⁵ ResPublica told us that a new “legalised form of company model” should be defined to encompass mutual ways of working and encourage their creation.⁹⁶ While Ed Mayo, the Secretary General of Co-operatives UK, agreed that there had been “a neglect of some of the legal models that are open to co-operatives”, he did not consider that another specific corporate form would simplify the system. Instead, he considered, it would add to the complexity.⁹⁷

57. *The Nuttall Review of Employee Ownership* also found that that employee ownership was held back by its legal, tax and regulatory complexities. It noted that Employee ownership was described as “unusual” and “difficult to do”, which often led to the conclusion that it was too hard to be worth considering.⁹⁸ The review considered a more flexible option of simplifying the options for establishing employee-owned enterprises with a range of off the shelf models that could be adopted which would:

- reduce the time and cost of introducing employee ownership;
- demystify how employee ownership works so more people can learn easily how they could achieve employee ownership; and

92 HM Treasury, *Budget 2012*, HC (2010-12) 1853, p 6, paras 1.243, 2.46

93 Q 355

94 Q 357

95 Q 226

96 Ev 111

97 Q 227

98 Department for Business, Innovations and Skills, *Sharing Success: The Nuttall Review of Employee Ownership*, July 2012, paras 1.33, 5.1

- create a ‘product’ that a much wider constituency of business advisers and intermediaries can refer to and advise upon, and that can be easily incorporated into training materials.⁹⁹

The Nuttall Review recommended that the Department for Business, Innovation and Skills, working with HM Treasury and the Advisory, Conciliation and Arbitration Service “should develop simple employee ownership toolkits including ‘off-the-shelf’ templates, to cover legal, tax and other regulatory considerations”.¹⁰⁰

58. We conclude that, while the absence of legal definitions of co-operatives may deter establishment of mutuals and co-operatives, the answer is not a new corporate entity defined in law. That would not only add a layer of complexity but also introduce a rigidity that could stifle innovation. Instead, we endorse the *Nuttall Review’s* findings and we recommend that the Government produce a set of ‘off the shelf’ models, with supporting guidance to be made available to those interested in establishing a mutual or co-operative. We envisage that these would provide an easy route to understanding the tax and administrative burdens that starting up a business might present. We also recommend that these models encompass mutuals and co-operatives beyond the employee-owned mutual and take account of those considering the delivery of local services.

Procurement

59. The delivery of local authority services by mutuals and co-operatives is likely in some cases to follow a procurement exercise triggered by the Right to Challenge. The TUC, in its evidence, was sceptical about the Right to Challenge, stating that it

simply triggers an open procurement exercise where fledgling mutuals will be in competition with private providers, who are usually better placed to win contracts through their expertise, experience, capacity, ability to raise capital and economies of scale.¹⁰¹

These concerns were echoed by Councillor Reed from Lambeth, who said that smaller organisations found it difficult to navigate the “complex routes” through the procurement arrangements that had been created.¹⁰² Some organisations cited the example of DA Partnership, an employee-owned mutual which was unable to compete against larger, well-established and financed organisations.¹⁰³ DA Partnership was set up as a wholly employee-owned mutual by employees from the Audit Commission to bid for local authority audit contracts. It failed to secure enough business to operate and was bought out by Mazars, a large accountancy firm.¹⁰⁴

99 Department for Business, Innovations and Skills, *Sharing Success: The Nuttall Review of Employee Ownership*, July 2012, para 5.5

100 Department for Business, Innovations and Skills, *Sharing Success: The Nuttall Review of Employee Ownership*, July 2012, para 5.22

101 Ev 122, para 25

102 Q 67

103 Q 222 [Paul Nowak], Ev 122, para 26 [TUC], Ev 100 [APSE]; see also Ev 143, paras 17-18 [UNISON]

104 “Savings promised as Audit Commission contracts announced”, *The Guardian*, 5 March 2012

60. Winckworth Sherwood saw the procurement process as the most significant barrier, saying that EU procurement regulations made the process too complicated for small organisations:

This is probably the biggest single hurdle in that under the EU Procurement regulations tendering is required and this will discourage all but the most enthusiastic prospective [non-profit distributing organisations] from bidding. The issue has been recognised by the Government in two procurement policy notes where the Government is urging the European Commission to permit a temporary exemption for employee-led organisations/mutuals in the new draft EC Procurement Directive currently being discussed by the European Parliament. We urge the Committee to support the government in this respect.¹⁰⁵

61. We heard that procurement exercises were conducted in some European states in ways that support mutuals. Ed Mayo said that in Italy, there was an exemption for low-level contracts with ‘social cooperatives’ which Italy had negotiated with the European Commission. This provided an exemption from the procurement arrangements for lower-level contracts involving social co-operatives.¹⁰⁶ Following intervention by the European Commission the exemption had been limited to contracts below the EU procurement thresholds though local authorities were provided with a power to lay down social conditions in contracts above the threshold.¹⁰⁷

62. We suggested to Francis Maude, that the Government might consider introducing similar arrangements for mutuals and co-operatives in this country. He told us that he was not aware of the Italian example but would look at it. He commented that the culture in the UK on procurement was “very legalistic and rigid” and gave an example of a procurement exercise in the Cabinet Office during which officials said “we’re not allowed to exercise judgment in choosing which suppliers to use.” He was clear that there was a need to “think about doing things very differently”.¹⁰⁸

63. The Government needs to clarify how EU procurement rules apply to mutuals and co-operatives to ensure that they have the maximum flexibility. In its response to our Report we ask the Government to explain how the Italian derogation we cite might be applied to the procurement process in the UK, particularly for mutuals and co-operatives competing for contracts for local authority services, and what changes to EU procurement rules it is pressing for.

Public Services (Social Value) Act 2012

64. The Local Government Association’s submission drew attention to the impact of the Public Services (Social Value) Act 2012 which will establish a requirement to consider

105 Ev 128, para 6.4.3

106 Q 242; see also Ev 111-13 [ResPublica].

107 Franco Dalla Mura (ed), “Social clauses and tendering: perspectives of implementation: the Italian context”, English translation from *Progetto Equal – Azione 3 – Il fase Bridge – Una rete per lo sviluppo dell’Economia Sociale, Ambito 3*, “Clausole sociali negli appalti”, Articolo, February 2008

108 Q 359

social and economic value when commissioning public services.¹⁰⁹ Professor Le Grand, Chair of the Mutual Taskforce, told us that the Act would provide mutuals and co-operatives with a means of competing against other organisations in the procurement process.¹¹⁰ He said that there was potential for employee-ownership to add social-value which would need to be considered in a Right to Challenge procurement exercise.¹¹¹ We go further. **We consider that not only employee ownership, but the other benefits of co-operative approaches, including greater user and community involvement in local service delivery, offer social value which needs to be considered in procurement exercises. The Government should amend its Statutory Guidance on the Community Right to Challenge and its guidance on local authority procurement to reflect this.**

Cultural barriers

65. We took evidence on non-financial barriers to setting up mutuals and co-operatives, commonly described as ‘cultural barriers’. Professor Julian Le Grand suggested that cultural barriers were “more interesting and more problematic than the technical problems”.¹¹² These barriers appeared to arise in two areas. The first was a lack of entrepreneurial enthusiasm in local authorities which held back employees from establishing their own service delivery organisations. The second was a lack of knowledge about business processes and a lack of the necessary commercial skills to develop an organisation.

66. The absence of entrepreneurial spirit was vividly put to us by Councillor Ian Parry, Deputy Leader of Staffordshire County Council:

in local government we have to accept that if there was a large pool of entrepreneurs in there, social or otherwise, they would be out there sipping pink gins on a yacht somewhere, I guess, because they would have done it already. But what they are doing is they took a career in public service for a reason, in that they wanted to work in public service. They did not necessarily want to go out and be entrepreneurs.¹¹³

However, Catherine Staite of the Institute of Local Government Studies (INLOGOV) said that such a view was an “over-simplification” and noted that entrepreneurial behaviours such as “empire building and building budgets” were common in the public sector. In her view sometimes it was organisational structures and political thinking that constrained entrepreneurial spirit.¹¹⁴ Mark Bramah, also from INLOGOV, added that it was down to the management and the organisational culture to promote or restrict these behaviours.¹¹⁵

67. Shropshire Council believed that a lack of employee enthusiasm in developing mutuals or co-operatives was more likely down to a lack of the appropriate skills. It argued that the

109 Ev 144, section 2

110 Public Services (Social Value) Act 2012, section 1

111 Q 175

112 Q 167

113 Q 47

114 Q 120

115 As above

skills needed by those already in local authority employment and the skills required to set up mutuals and co-operatives were very different. It observed that:

- Most staff don't know the true costs of their service and have a poor understanding of them. Very few have the necessary skills to make a commercial success of their service. When it is pitched into the open market (this is something we are attempting to address through a core skills programme for staff and which is also addressed in an experiential way through the structured support within our spin-out pathway).
- Staff also have a poor understanding of the local market within which they will be operating and tend to have a somewhat idealised idea of the value to customers of their service and of who their competition might be.
- Although not strictly speaking a cultural barrier, staff have little or no awareness of the contract and procurement restrictions which may prevent the council from 'gifting' their service to them. There are undoubtedly tensions in this area between the intentions of the Localism Act which triggers a competitive procurement exercise, and Government initiatives such as the Right to Provide which advocate for a closed procurement approach to staff led spin-outs of services. We have commissioned advice from the Office of Public Management to help us to navigate this emerging and complex area, but it is undoubtedly a potential block to government aspirations in terms of encouraging staff led and owned delivery of local services.¹¹⁶

68. When we asked Ministers about these cultural barriers, they were optimistic about the ability of the staff who currently work in local government to make the transition to mutual and co-operative organisations. However, they recognised a shortage in skills in a number of areas. They concluded that, most importantly, a better understanding of the procurement process would provide benefits. It would both ensure the best services were commissioned and would supply employees with the confidence to undertake service delivery themselves as a spun-out organisation.¹¹⁷ Francis Maude pointed out how this was being addressed through a new Commissioning Academy¹¹⁸ which was being developed by the Cabinet Office to improve the commercial skills and “confidence” of those commissioning public services.¹¹⁹ He noted some institutional resistance from managers unwilling to encourage staff to consider developing spin-out services.

Quite often people are deterred because there is a hostile response from their managers. You should not underestimate that. Within many public sector organisations there is anxiety from the managers above the group interested in spinning themselves out as a mutual. The concerns are twofold. One is, “If they go, I will have to turn myself from being a line manager into a contract manager,” which

116 Ev 132-33

117 Qq 319, 348

118 Q 319

119 Cabinet Office, *Open Public Services 2012*, March 2012, pp 10, 86

is a different skillset. Generally, the same people are perfectly capable of doing both, but it is a different skillset.¹²⁰

69. The Mutuels Taskforce reporting on skills concluded that:

there will be benefits from complementing the existing professional and service delivery skills of the leaders and employees of fledgling mutuals with the development of skills focused on the creation and successful running of a new business [and that] this is essential for a successful transition from delivering services within the public sector to leading new, independent organisations.¹²¹

70. We do not consider it evident that local authority staff lack the entrepreneurial inclination to establish mutuals and co-operatives, rather we see that staff lack the skills and understanding required to embark on the process of setting up mutuals. Establishing an organisation to take over the delivery of a local authority service which might be heavily regulated or carry statutory obligations can be a daunting prospect. We welcome the Cabinet Office's objective to use the Commissioning Academy to address the skills gap in procurement and we agree with the Mutuels Taskforce report that the Cabinet Office through the Mutual Support Programme should target the broader development of commercial and other skills for public sector employees necessary to allow them to develop mutuals and co-operatives. We recommend that the Government outline in its response how many local authority officers it expects to train through the Academy. A better understanding of procurement might allay the fears of those in management positions who are unwilling to encourage staff to think about these options.

120 Q 348

121 Mutuels Taskforce, *Our Mutual Friends*, December 2011, p 34

6 Risks of using co-operatives and mutuals

71. This chapter examines the main risks—as put to us in evidence—that could arise when local services are delivered through a mutual.

Accountability

72. Councils are democratically accountable bodies, well-placed to understand the needs of their communities. In its publication, *Proof of delivery*, looking at delivery through co-operatives and mutuals, Association for Public Service Excellence (APSE) raised a number of questions about their accountability:

How far are co-ops and mutuals accountable beyond their immediate membership to both wider communities and elected members? Whilst they might appear to be more accountable to their members than traditional forms of public service delivery, can the same be said for their accountability to wider communities? Might divestment to co-ops and mutuals add to the already complex landscape of political accountability and political oversight?¹²²

The Local Government Association had similar worries and argued that only councillors have the “democratic legitimacy to champion the rights of service users and tax payers and hold services to account”.¹²³

73. Local authorities stressed their ultimate responsibility for service delivery. Oldham Council noted:

as a local authority, we are not only a statutory body, but we are also proud to be a democratically-led body, meaning that we are fully and directly accountable to local people. Where we do commission external providers to deliver services on our behalf—whether these are private-, public-, or third-sector organisations—we retain ultimate accountability and responsibility for such services.

There are potentially more risks in delivering services through third-party organisations in terms of the long-term viability and sustainability of such organisations. This poses real challenges for elected members and officers, as their ability to influence decisions and the management of risk is more remote when services are delivered through third-parties. It also presents the need for a robust system of checks and balances in awarding and monitoring contracts.¹²⁴

Staffordshire County Council said that:

Accountability for services ultimately lies with the local authority. Responsibility and accountability for the delivery of the services, however, lies with the provider. It is really important that the provider organisations whether they are social enterprises,

¹²² *Proof of delivery? A review of the role of co-operatives and mutuals in local public service provision*, APSE, August 2011, p 11

¹²³ Ev 144, section 2

¹²⁴ Ev 83–84, para 3.2

not-for-profit organisations, employee-owned mutual or commercial organisations are held to account for delivering what has been agreed and no allowance (except perhaps in the initial establishment phase) should be given for the nature of the organisation. The service user is entitled to expect nothing less.¹²⁵

74. In considering the role a range of organisations can play in the co-production of services, as we have already noted, Lambeth emphasised the importance of democratic accountability and the protection of the public interest:

although this diversity of provision can bring benefits, Lambeth recognises its unique position as the democratically elected body in the borough, and its responsibility to ensure that the public interest is protected throughout the commissioning process. Regardless of the status of the provider, the council will need to ensure that public services remain accessible to all, and that providers support the philosophy and principles of the co-operative council and act in the public interest.

Effective accountability is therefore a pre-requisite for public confidence in the cooperative council. As others have recognised, accountability is increasingly complex in today's public service provision. Local councillors have a crucial role to play through scrutiny mechanisms, and as community-led commissioning activity increases, councillors are also likely to have a role in ensuring accountability at the ward level. Regulation, inspection, contracts and elections will all continue to provide mechanisms for accountability.¹²⁶

75. The Minister, Don Foster, told us said that when services were delivered by external bodies the role of councillors would be “absolutely crucial”. He added that in such situations the councillors’ role “is somewhat different and increasingly becomes one of the procurement exercise and the monitoring of the delivery of those services”.¹²⁷

76. One issue of accountability that concerned us was the transparency of the remuneration of senior employees at mutuals and co-operatives taking on local authority services and whether that transparency would be reduced when services were transferred from the authority to external organisations. It was evident that organisations had approached the issue differently. Donna Fallows, from *Evolve YP*, told us salaries were made public and that *Evolve YP* would be funded through local authority budget for this sector.¹²⁸ In the case of Greenwich Leisure and Teme Leisure services there was no direct disclosure of salaries, but councillors considered that salaries should be made available to the council on request.¹²⁹

77. It has to be the case that councillors are accountable for the services a local authority provides. Councils setting up co-operatives or mutuals or transferring services to an existing mutual or co-operative must ensure clear lines of accountability by requiring that services are delivered to contract (as they should with any contractor) and, when

125 Ev 87

126 Ev 79, paras 3.4-3.5

127 Q 338

128 Q 288

129 Qq 286–289 [Peter Bunday, Cllrs Kotz and Butler]

appropriate, through direct involvement in the governance structure. Moreover, it must be part of the ethos of mutuals and co-operatives to be open and transparent and that their governance structures and rules will be made publicly available. In our view this disclosure has to include information about senior managers' remuneration.

Local engagement

78. ResPublica in its 2009 report *The Ownership State* discusses public engagement and called for a system of local government that would give the local people, a stake in their service providers. It argued that the state must enable new associations of service users, community members, voluntary contributors and existing social organisations to take ownership of their services, as partners with direct influence over providers.¹³⁰ ResPublica recognised that staff and user engagement was difficult to achieve:

Engagement, whether of the people who use services or the frontline staff who deliver them, is a hard thing to achieve. The very structure of our public services militates against it. Trying to achieve true engagement in existing structures invariably feels like a partial fix in an otherwise hopelessly compromised system. Frontline leadership is a scarce commodity in large multidisciplinary organisations with centralised cost control and management by target. User involvement often becomes not co-creation but the choreographed rubber-stamping of top-down decision making.¹³¹

79. Phillip Blond, from ResPublica told us that the benefits from co-operative working should come from changing the relationship between local authorities and the public, so that the public become shapers of services rather than consumers of services.¹³² Lord Glasman told us that this new relationship would only emerge if the public was organised and encouraged to be engaged and interested in service issues. He said that in some cases the public would need to be “agitated” into doing this.¹³³

80. Cllr Ian Parry, Deputy Leader of Staffordshire County Council, told us that, engagement was not always possible and not always what the public wanted:

Some people just want to pay their tax, go out to work, come home at the end of the day and find their dustbin has been emptied. They do not necessarily want to engage in telling you how to do it.¹³⁴

81. While we recognise that not everyone will want to engage with those who deliver their services, mutuals and co-operatives offer greater community and service user engagement. The degree of engagement will vary according to the type of mutual or co-operative but many are capable of linking better with service users. In the case of employee-owned mutuals, while we would not go as far as recommending that they must include representatives of service users in their governance structure, we

130 ResPublica, *The Ownership State*, 2009, p 25

131 ResPublica, *The Ownership State*, 2009, p 6

132 Qq 215-16

133 Qq 181, 189-94, 202-03

134 Q 15

recommend that Government guidance from the Mutual Support Programme needs to promote effective monitoring of the needs of service users and develop mechanisms for users to shape the delivery of a service. Without these links the potential benefits of mutuals and co-operatives will not be fully realised.

Employees

82. The evidence we received from trades unions suggested that the protection of employment standards for those workers delivering the service was crucial to the success of public service mutuals. UNISON stated that reports from its branches:

suggest that the move to more cooperative ways of working is generally instituted by council leaders, with senior officers tasked with implementation, and with little or no involvement of the workforce or those who use services. We believe that attempting to undertake sweeping changes to the way services are designed and delivered without the input of staff and service users is a fatal error, and one that runs contrary to many of the principles of cooperative ways of working.¹³⁵

UNISON was concerned about the impact of transferring service delivery to bodies outside the public sector, contending that they generally reduced pay, conditions and pensions for staff, that there was poor monitoring and quality control by councils and reduced accountability to service users and local council tax payers.¹³⁶ The TUC agreed and said that protecting employment standards for these workers, and engaging with the workforce was crucial to the success of public service mutuals.¹³⁷ The TUC gave the example of MyCSP, which administers civil service pensions, which had been established as a mutual despite the overwhelmingly opposition of the staff delivering the service. The majority of staff had said they did not feel that they had been empowered as a result of the mutualisation.¹³⁸

83. On the other hand, we received evidence that engaging with local authority staff about the potential to develop mutuals and co-operatives can be difficult. Lambeth Council, acknowledged that engaging its workforce had been challenging. It explained that some staff had not fully grasped the concept, while others had been reluctant to relinquish budgetary control:

Some managers measure their relative importance by the size of their budget and the number of staff they control. They may be reluctant to give these up as the council transitions to alternative models, and may actively or passively resist transformation. Other staff find it challenging to fully understand the model we are trying to develop and there have been instances of managers writing service plans that are no different to what they have always been but are sprinkled with cooperative language with talk of coproduction and reciprocity when, in fact, none of these are being delivered.¹³⁹

¹³⁵ Ev 142, para 11

¹³⁶ Ev 141, paras 3-4

¹³⁷ Ev 122, para 29

¹³⁸ Q 224, Ev 120, para 11; the exact figure was 94%.

¹³⁹ Ev 80, para 3.8

84. But there are benefits for staff. The mutuals and co-operatives models offer staff an opportunity to have a greater say in running the organisation. We heard that mutuals provided an opportunity for employees to take ownership of their organisation and release entrepreneurial skills hidden by current practices. The Mutuals Taskforce pointed to evidence of a number of specific benefits for staff working in employee-owned organisations. These include:

Absenteeism is lower in mutuals

Staff turnover is lower in mutuals

Retention and recruitment of high quality staff appears to be easier in mutuals

Mutuals pay higher wages on average than non-employee-owned organisations

Mutuals have better staff performance.¹⁴⁰

As we have noted in chapter 3, there is some evidence for motivational benefits of mutualisation and staff engagement as stakeholders. **While we do not underestimate the concerns about mutuals, we consider that these can be overcome and that with greater user engagement co-operatives and mutuals offer the opportunity to empower and motivate their workforce. Motivational benefits, and the associated improvements in services, arise from providing employees with more direct control over the way an organisation is run and fostering a more satisfied workforce. These benefits will be lost, however, if employees are not engaged in a mutualisation process from the start and are not provided with secure and fair employment as a result of the process.**

Service Fragmentation

85. UNISON, APSE and the TUC took the view that transferring local service delivery to external organisations would impede the potential for joined-up services across sectors. UNISON said that “the sustainability of public sector provision could be negatively impacted by the fragmentation of services through divestment away from the sector”.¹⁴¹ But others said that local authorities already let thousands of contracts and this should not be a problem.¹⁴²

86. A linked issue is the ability of local authorities to develop and change services and to foster innovation in the manner in which services are delivered. The Minister, Don Foster, made the point that there had to be a transformation in local authorities’ approach to contracting for services to ensure authorities prevented fragmentation and provide flexibility and innovation. He told us that better skills and better contracts focusing on outcomes, not specifying every conceivable detail should achieve this.¹⁴³ **In our view a competent local authority should be able to use the commissioning process and subsequent oversight of contracts to guard against fragmentation of services. Local**

140 Ev 103-07; see also Q 134.

141 Ev 143, para 23; see also Ev 102 [APSE], Ev 119, 123 [TUC] and Ev 141, 144 [UNISON].

142 Q 88 [Mark Bramah], Q 336 [Don Foster]

143 Q 336

Authorities should have regard to contractual obligations that, where appropriate, ensure mutual and co-operative delivery bodies engage in joint working relationships to prevent the fragmentation of services.

Asset loss

87. A number of organisations recognised that there were risks associated with handing public assets over to new mutuals or co-operatives. Lord Glasman was concerned about the lack of an ‘asset lock’ in the mutualisations that had occurred recently. He said that mutuals or their assets could become susceptible to buy-outs if they were allowed to be traded on the market and concluded that at endowment or trust should be used to ensure that assets were retained for the public in perpetuity.¹⁴⁴ The TUC stated that the key to reducing this risk was to safeguard public assets if a mutual or co-operative or its assets was taken over by a private business by contractual ‘lock-ins’ to protect services and assets from transfer to the private sector in the event of failure or transfer of ownership.¹⁴⁵

88. Staffordshire County Council said that when considering a transfer to a mutual or co-op:

locking down property and other assets is something authorities need to deal with legally if they are planning to transfer any assets or property in their entirety as part of any arrangement. Furthermore, where property is involved and the new mutual entity with community interest purposes wants to change its objectives sometime in the future this could have implications if the local authority owned this property with restrictive covenants attached. So it is important that both parties are clear on the conditions of transfer and do not assume that property can simply be transferred to someone else.¹⁴⁶

Simon Randall added that when dealing with community-oriented organisations there was much more support from people if the asset remained a public asset, though this could feasibly be provided by transferring an asset to an organisation with a public stakeholder, for example the local authority, in its governance structure.¹⁴⁷

89. Phillip Blond saw locking assets as a major hindrance to mutuals and co-operatives growing and delivering more public sector services and that asset ownership needed to be flexible to so that mutuals and co-operatives could use them in the leverage of finance. He told us that asset locks were the reason why “cooperatives have not gone to scale in this country” because they prevent organisations raising capital finance.¹⁴⁸

90. Francis Maude noted that there would be “anxiety” about assets disappearing from public ownership just as there would be “deep frustration” where the use of assets could not be optimised because they were no longer publicly owned. He concluded that any asset protection or transfer must be undertaken on the basis of “horses for courses” for

144 Q 189

145 Ev 121, para 21

146 Ev 87

147 Q 237

148 Q 190

individual cases.¹⁴⁹ There will be many cases where there is a strong financial case for allowing assets to transfer because they will provide a mechanism for financing new start-ups. However, there are risks in transferring assets to private sector bodies. Assets might be poorly managed and stripped or lost entirely if an organisation is bought out. On balance, we consider that the financial benefits of transferring assets in many cases outweigh the risks and there should not be a general block on such transfers. The Government must work to provide guidance, to assist those commissioning services and those starting up services, on the circumstances and conditions by which assets can be transferred and, if necessary, returned to the local authority.

91. It is possible that some mutuals or co-operatives may become uneconomic and fail. The resulting loss of assets, the loss of employment and the loss of the service for residents would be detrimental. It could damage the 'co-operative brand' and deter other authorities from adopting these models. It might also require that local authorities are ready to step in to take control of failing services. When commissioning services from mutuals and co-operatives local authorities should take care to provide that the staff, service and assets, when they were originally owned or delivered by the authority, of a failing mutual or co-operative could be brought back under their control. This should be reflected in government guidance.

7 Conclusion

92. In its evidence the Local Government Association considered that an increased interest in mutuals had been driven by the “emphasis on the role of civil society and the provisions put in place with the Localism Act 2011, combined with cuts in local authority budgets and the knock-on effect on front line services”.¹⁵⁰ But this is only part of the story, as we have noted two government policies are stimulating local authorities to consider how mutuals and co-operatives might deliver local services. As well as the Localism Act 2011 which gives those working within local authorities and local people a right to bid for services which they could then run as a mutual or co-operative, the Government wants to open up services across the entire public sector and it sees employee-owned mutuals as instrumental to achieving this change. Delivering local services through mutuals and co-operatives would fulfil both these policy objectives and would embody the Government’s ambition for the ‘Big Society’.

93. Additionally, the economic downturn and the severe constraints on budgets across the public sector mean that local authorities are under pressure to look for new ways to deliver services. The supporters of mutuals and co-operatives are clear that they offer scope not only for improved efficiency but more responsive services underpinned with local accountability and engagement. As the Government put it, they “increase trust and confidence in public services and local democracy”.¹⁵¹ But the economic downturn is a double-edged sword. There is no money for pump-priming and local authorities are cautious about putting resources into untried arrangements.

94. Mutuals and co-operatives providing local services are not being set up in significant numbers. From the small number of mutuals and co-operatives in the local government sector the evidence is encouraging but it not sufficient either to demonstrate conclusive improvements in service or that savings can be made or that benefits in engagement and accountability will follow. The necessary critical mass will be slow to build up without more and better support. The Government has a choice, if it wants more mutuals and co-operatives to develop: it must take action to provide support. Without additional assistance it seems likely little will happen. Our recommendations aim to encourage a joined-up strategy for the collection of evidence and dissemination of best practice and tested models and to break down the barriers currently holding authorities back. The Government needs to implement these urgently if it wishes to encourage more authorities to take an interest in mutual and co-operative working.

¹⁵⁰ Ev 145, para 4

¹⁵¹ Ev 134, para 7

Conclusions and recommendations

Mutuals and co-operatives delivering services in the public sector

1. The evidence we received suggested that a small number of local authorities are using or have established mutual or co-operative bodies to deliver their services. There appears to be confusion in local government and beyond about what constitutes a co-operative or mutual service delivery organisation. (Paragraph 15)

Variation in mutual and co-operative models

2. We observed a range of approaches being adopted by a number of local authorities. Although the models we have seen do not always fit with the traditional model of a co-operative, there is a common thread to the models authorities are adopting for mutual and co-operative delivering their services: an objective to switch service procurement to a process that helps users define their needs and provides those delivering services with a flexibility to respond to these needs. Some authorities, for example Lambeth Council, have taken the concept and applied it generally to commissioning and shaping services. It will be important to avoid an overly prescriptive definition of mutuals and co-operatives. There is no one size fits all approach. The ethos underlying the approach is not exclusive to a particular model. As we consider later in this Report, different models might lend themselves better to the delivery of specific types of services and some models might be appropriate to particular local authority services and sit better with authorities across the political spectrum. (Paragraph 30)

Evidence of benefits

3. The evidence for the benefits of mutuals and co-operatives operating in a local government is limited. However, the benefits that have been observed from mutuals operating in the public sector and the health sector suggest that these approaches have the potential to offer improvements in delivering local authority services. In particular, the motivational benefits provided by employee ownership, the response to users' needs provided by enhanced user engagement and the success of established organisations such as Greenwich Leisure persuade us that more local authorities should be considering these options. (Paragraph 38)

Cross-departmental working and support

4. We share the Government's ambition of encouraging the setting up of more mutuals but we have a number of concerns. First, the Cabinet Office's work so far has been limited to employee-owned mutuals when we have detected interest within local authorities in setting up a wider range of mutuals and co-operatives. Second, we are not convinced that the Cabinet Office and the Department for Communities and Local Government have been operating in step. The links between the Cabinet Office and the Department need to be strengthened so that the Cabinet Office takes full account of the potential for mutuals and co-operatives to deliver services in local

government and to ensure that guidance and support is made available to all those interested in taking on local services. We see a role for the Local Government Association in providing the link between this work and local authorities. We welcome the Government's plan to create 15 Mutual Ambassadors and we hope that this will contribute to joined up working. (Paragraph 46)

5. The Mutuals Support Programme is collating information that could be equally valuable to people considering setting up mutuals and co-operatives beyond the scope of the employee-owned mutuals it currently assists. We noted earlier that the evidence for the success or otherwise of mutuals and co-operatives in delivering local authority services is limited. In our view, the absence of evidence is likely to be holding some authorities back from investigating mutual and co-operative options. We see scope for greater co-ordination between the Mutuals Support Programme, Department for Communities and Local Government and the Local Government Association in gathering evidence on the operation of mutuals and co-operatives in delivering local authority services and making that available to other authorities. (Paragraph 47)

Guidance for local authorities

6. We see the need for guidance, particularly in safeguarding their regulatory roles, to ensure that local authorities avoid conflicts of interest, perceived or real, in setting up and supporting mutuals and co-operatives and in subsequently entering and enforcing contracts with these bodies. In our view local government itself led by the Local Government Association should take the lead in preparing this guidance. (Paragraph 48)

Finance

7. Finance for starting up mutuals and co-operatives is in short supply. Encouragement, advice and guidance will come to nothing without finance. The Government has a responsibility to inform and educate financial institutions, including Big Society Capital, about lending to mutuals and co-operatives and we recommend that it establish a programme to this purpose. (Paragraph 54)

Tax incentives

8. In our view tax incentives have an important role to play in helping mutuals and co-operatives to get established. Mutuals and co-operatives experience difficulties in establishing start-up finance, and any greater access to finance must assist their viability. In its review of employee ownership we would expect the Treasury to examine support not just for entirely employee-owned mutuals but also other broader co-operative models which include user and local authority stakeholder groups. We look forward to the findings of the Treasury's review of employee ownership. (Paragraph 55)
9. We conclude that, while the absence of legal definitions of co-operatives may deter establishment of mutuals and co-operatives, the answer is not a new corporate entity defined in law. That would not only add a layer of complexity but also introduce a

rigidity that could stifle innovation. Instead, we endorse the Nuttall Review's findings and we recommend that the Government produce a set of 'off the shelf' models, with supporting guidance to be made available to those interested in establishing a mutual or co-operative. We envisage that these would provide an easy route to understanding the tax and administrative burdens that starting up a business might present. We also recommend that these models encompass mutuals and co-operatives beyond the employee-owned mutual and take account of those considering the delivery of local services. (Paragraph 58)

Application of procurement rules to mutuals and co-operatives

10. The Government needs to clarify how EU procurement rules apply to mutuals and co-operatives to ensure that they have the maximum flexibility. In its response to our Report we ask the Government to explain how the Italian derogation we cite might be applied to the procurement process in the UK, particularly for mutuals and co-operatives competing for contracts for local authority services, and what changes to EU procurement rules it is pressing for. (Paragraph 63)

Guidance on social value

11. We consider that not only employee ownership, but the other benefits of co-operative approaches, including greater user and community involvement in local service delivery, offer social value which needs to be considered in procurement exercises. The Government should amend its Statutory Guidance on the Community Right to Challenge and its guidance on local authority procurement to reflect this. (Paragraph 64)

Training and skills

12. We do not consider it evident that local authority staff lack the entrepreneurial inclination to establish mutuals and co-operatives, rather we see that staff lack the skills and understanding required to embark on the process of setting up mutuals. Establishing an organisation to take over the delivery of a local authority service which might be heavily regulated or carry statutory obligations can be a daunting prospect. We welcome the Cabinet Office's objective to use the Commissioning Academy to address the skills gap in procurement and we agree with the Mutuals Taskforce report that the Cabinet Office through the Mutual Support Programme should target the broader development of commercial and other skills for public sector employees necessary to allow them to develop mutuals and co-operatives. We recommend that the Government outline in its response how many local authority officers it expects to train through the Academy. A better understanding of procurement might allay the fears of those in management positions who are unwilling to encourage staff to think about these options. (Paragraph 70)

Accountability

13. It has to be the case that councillors are accountable for the services a local authority provides. Councils setting up co-operatives or mutuals or transferring services to an

existing mutual or co-operative must ensure clear lines of accountability by requiring that services are delivered to contract (as they should with any contractor) and, when appropriate, through direct involvement in the governance structure. Moreover, it must be part of the ethos of mutuals and co-operatives to be open and transparent and that their governance structures and rules will be made publicly available. In our view this disclosure has to include information about senior managers' remuneration. (Paragraph 77)

Local engagement

14. While we recognise that not everyone will want to engage with those who deliver their services, mutuals and co-operatives offer greater community and service user engagement. The degree of engagement will vary according to the type of mutual or co-operative but many are capable of linking better with service users. In the case of employee-owned mutuals, while we would not go as far as recommending that they must include representatives of service users in their governance structure, we recommend that Government guidance from the Mutual Support Programme needs to promote effective monitoring of the needs of service users and develop mechanisms for users to shape the delivery of a service. Without these links the potential benefits of mutuals and co-operatives will not be fully realised. (Paragraph 81)

Employee engagement

15. While we do not underestimate the concerns about mutuals, we consider that these can be overcome and that with greater user engagement co-operatives and mutuals offer the opportunity to empower and motivate their workforce. Motivational benefits, and the associated improvements in services, arise from providing employees with more direct control over the way an organisation is run and fostering a more satisfied workforce. These benefits will be lost, however, if employees are not engaged in a mutualisation process from the start and are not provided with secure and fair employment as a result of the process. (Paragraph 84)

Service fragmentation

16. In our view a competent local authority should be able to use the commissioning process and subsequent oversight of contracts to guard against fragmentation of services. Local Authorities should have regard to contractual obligations that, where appropriate, ensure mutual and co-operative delivery bodies engage in joint working relationships to prevent the fragmentation of services. (Paragraph 86)

Assets

17. There will be many cases where there is a strong financial case for allowing assets to transfer because they will provide a mechanism for financing new start-ups. However, there are risks in transferring assets to private sector bodies. Assets might be poorly managed and stripped or lost entirely if an organisation is bought out. On balance, we consider that the financial benefits of transferring assets in many cases

outweigh the risks and there should not be a general block on such transfers. The Government must work to provide guidance, to assist those commissioning services and those starting up services, on the circumstances and conditions by which assets can be transferred and, if necessary, returned to the local authority. (Paragraph 90)

18. It is possible that some mutuals or co-operatives may become uneconomic and fail. The resulting loss of assets, the loss of employment and the loss of the service for residents would be detrimental. It could damage the 'co-operative brand' and deter other authorities from adopting these models. It might also require that local authorities are ready to step in to take control of failing services. When commissioning services from mutuals and co-operatives local authorities should take care to provide that the staff, service and assets, when they were originally owned or delivered by the authority, of a failing mutual or co-operative could be brought back under their control. This should be reflected in government guidance. (Paragraph 91)

Conclusion

19. Mutuals and co-operatives providing local services are not being set up in significant numbers. From the small number of mutuals and co-operatives in the local government sector the evidence is encouraging but it not sufficient either to demonstrate conclusive improvements in service or that savings can be made or that benefits in engagement and accountability will follow. The necessary critical mass will be slow to build up without more and better support. The Government has a choice, if it wants more mutuals and co-operatives to develop: it must take action to provide support. Without additional assistance it seems likely little will happen. Our recommendations aim to encourage a joined-up strategy for the collection of evidence and dissemination of best practice and tested models and to break down the barriers currently holding authorities back. The Government needs to implement these urgently if it wishes to encourage more authorities to take an interest in mutual and co-operative working. (Paragraph 94)

Formal Minutes

Wednesday 21 November 2012

Members present:

Mr Clive Betts, in the Chair

Bob Blackman
Simon Danczuk
Bill Esterson

James Morris
Mark Pawsey
John Stevenson

Draft Report (*Mutual and co-operative approaches to delivering local services*), proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 94 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (ordered to be reported for publishing on 16 May, 21 May, 11 June, 18 June, 2 July, 16 July, 3 September and 29 October 2012).

[Adjourned till Monday 26 November at 4.00 p.m.]

Witnesses

Wednesday 16 May 2012

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Councillor Steve Reed, Leader, London Borough of Lambeth, **Councillor Barbara Brownridge**, Portfolio Holder, Co-operatives and Community Development, Oldham Metropolitan Borough Council and **Councillor Ian Parry**, Deputy Leader, Staffordshire County Council

Ev 1

Wednesday 23 May 2012

Professor Tony Bovaird, Professor of Public Management and Policy, Institute of Local Government Studies, University of Birmingham, **Catherine Staite**, Director, Institute of Local Government Studies, University of Birmingham and **Mark Bramah**, Assistant Chief Executive, Association for Public Service Excellence

Ev 18

Professor Julian Le Grand, Chair, Mutuels Taskforce

Ev 28

Monday 11 June 2012

Phillip Blond, Director, ResPublica and **Lord Glasman**

Ev 35

Monday 18 June 2012

Ed Mayo, Secretary General, Co-operatives UK, **Paul Nowak**, Head of Organisation and Services, TUC and **Simon Randall CBE**, Consultant Winckworth Sherwood LLP

Ev 46

Councillor Peter Kotz, Royal Borough of Greenwich Council, **Peter Bunday**, Deputy Managing Director, Greenwich Leisure Limited, **Donna Fallows**, Practice Lead and Senior Practitioner, Evolve YP and **Councillor Gwilym Butler**, Shropshire Council

Ev 55

Monday 10 September 2012

Rt Hon Francis Maude MP, Minister for the Cabinet Office and **Rt Hon Don Foster MP**, Parliamentary Under Secretary of State, Department for Communities and Local Government

Ev 65

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Association for Public Service Excellence	Ev 98
Co-operatives UK	Ev 116
Department for Communities and Local Government	Ev 133, Ev 136
Lord Glasman	Ev 114
Institute of Local Government Studies, University of Birmingham	Ev 88, Ev 91
Lambeth Council	Ev 77
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Mutuals Taskforce	Ev 102
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Oldham Metropolitan Borough Council	Ev 80
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West Midlands Council	Ev 139
Winckworth Sherwood LLP	Ev 124

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2012–13

First Report	Park Homes	HC 177-I (CM 8424)
Second Report	European Regional Development Fund	HC 81 (CM8389)
Third Report	The work of the Local Government Ombudsman	HC 431 (HC 615 & HC 650)
Fourth Report	Pre-appointment hearing for the Chair of the Audit Commission	HC 553

Session 2010–12

First Special Report	Beyond Decent Homes: Government response to the Committee's Fourth Report of Session 2009–10	HC 746
First Report	Local Authority Publications	HC 666 (HC 834)
Second Special Report	Local Authority Publications: Government response to the Committee's Sixth Report of Session 2010-11	HC 834
Second Report	Abolition of Regional Spatial Strategies: a planning vacuum?	HC 517 (CM 8103)
Third Special Report	FiReControl: Government response to the Committee's Fifth Report of Session 2009–10	HC 835
Third Report	Localism	HC 547 (CM 8183)
Fourth Report	Audit and inspection of local authorities	HC 763 (CM 8209)
Fifth Report	Localisation issues in welfare reform	HC 1406 (CM 8272)
Sixth Report	Regeneration	HC 1014 (CM 8264)
Seventh Report	Pre-appointment hearing for the Government's preferred nominee for Chair of the Homes and Communities Agency Regulation Committee	HC 1612
Eighth Report	The National Planning Policy Framework	HC 1526 (CM 8322)
Ninth Report	Taking forward Community Budgets	HC 1750
Tenth Report	Building regulations applying to electrical and gas installation and repairs in dwellings	HC 1851 (CM 8369)
Fourth Special Report	Preventing violent extremism: Government response to the Committee's Sixth Report of Session 2009–10	HC 1951
Eleventh Report	Financing of new housing supply	HC 1652 (CM 8401)

Oral evidence

Taken before the Communities and Local Government Committee on Wednesday 16 May 2012

Members present:

Mr Clive Betts (Chair)

Heidi Alexander
Bob Blackman
Simon Danczuk
Bill Esterson
Stephen Gilbert

David Heyes
James Morris
Mark Pawsey
Heather Wheeler

Examination of Witnesses

Witnesses: **Councillor Steve Reed**, Leader, London Borough of Lambeth, **Councillor Barbara Brownridge**, Portfolio Holder, Co-operatives and Community Development, Oldham Metropolitan Borough Council, and **Councillor Ian Parry**, Deputy Leader, Staffordshire County Council, gave evidence.

Q1 Chair: Welcome, and thank you for being on time. Thank you very much for coming to this first evidence session of the Committee's inquiry into the Co-operative Council. Just for the sake of our records, could you say who you are and the organisation you represent?

Cllr Parry: Ian Parry, Staffordshire County Council.

Cllr Reed: Steve Reed, Leader of Lambeth Council.

Cllr Brownridge: Barbara Brownridge, Oldham Metropolitan Borough Council.

Q2 Chair: Thank you, and you are all most welcome to our session. If you simply agree with what somebody else has said there is no need to repeat it, just indicate your agreement, but I am sure we are here to have a good discussion about the various things that are going on in your authorities and where they may be taken to in the future on this particular subject.

To begin, I think some of your evidence suggested—it is slightly unusual to begin at this point—that our terms of reference were slightly wrong and probably a bit constrained and narrow, and that we should not simply be looking at co-operatives as particular mutual institutions but as a different way for councils to operate as a whole. Would you like to say something about how you see your council as being co-operative, just as a starting point?

Cllr Reed: I can't necessarily speak for everybody else, but, yes, the premise that underlay your series of questions was that we were seeking to deliver services through co-operatives, which is not what the councils in the Co-operative Councils Network are aiming to do. That may be the case, but the reason we called it "Co-operative" is that we are looking for closer co-operation between the providers of the services and the users of the services in order to get more responsive services that better meet the needs of the people who live in the communities that are affected or who use the particular service in question.

Creating that closer co-operation requires a rebalancing of the power relationship, so that you can move from an adult or a parent/child relationship between the provider and the user to a more adult/

adult relationship. Rebalancing the power relationship in that way will quite often mean delivering services in different ways and creating different structures to deliver them than we have had currently. That may involve co-operatives, but it may not.

Cllr Parry: I think it is a slightly different story from Staffordshire in that we see this as an opportunity as far as a transformation programme in local government is concerned, and that is about becoming more of a commissioning organisation and for us to redesign the services that we provide and to right provide them, I think is the jargon. So we are very keen on building up capacity on the supply side of provider service provision and to work with communities, voluntary organisations, charities and anyone else who feels that they can provide services locally or across county in a way that is more efficient, offers better value and, of paramount importance, of equal or better service quality.

Cllr Brownridge: I think we steer more towards the first model. We see this as an opportunity to step back and re-evaluate what councils are for and what we ought to be doing, and that will involve far greater interaction with the people who receive those services with the idea that they tell us as much as we tell them. At the moment, I agree with Steve; I think we are very paternalistic in our approach and what we are looking to do is to say to people, "Right, we all understand the world we live in now. We have to make some hard choices about what it is we do and do not do, and we want you, the people who are going to benefit or not from those services, to help us decide what the priorities are."

That will be the first step—what is it a council should do, and it may not be what councils do at the moment. In fact, it almost certainly will not be because we will not be able to provide the depth and breadth of services that we have done in the past, because we just do not have the money any more. It is a matter of prioritising and building in something we like to call social value. So you are not just looking at pure economics. You are looking at the quality of what you are delivering and the quality of what people can get out of it, so that everything that we do, whoever

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provides that service—and it may be the council, it may be a mutual, it may be the private sector, it may be a combination of those—but the bottom line is the value of what we are providing, which must be delivered, it must be what the public wants, and we must be accountable and answerable if that is not what happens.

Q3 Chair: Why is that co-operative?

Cllr Brownridge: Because you are talking about a co-operation between the people, the officers and the councillors and the general public who are, at the moment, the receiver of services. Rather than us telling them what they can have, they can be involved, and that will mean some of the things the council does they will have to do for themselves. We will say to them, “You have to choose. There are some things you could do the council does not have to do. We do not have to come and pick up the litter in your street every week; you could do that,” and that frees us up to do something else that you will decide is more important. So it is a co-operation of the people who use the services and provide them, whoever that provider might be, and much more involvement in that, so an involvement in what those services should be and an involvement in delivering them and how they are delivered.

Cllr Reed: Can I add to that, because Barbara got it right there. This is not so much about the process of delivery, not the mechanisms of delivery; it is more about the outcomes that you get. Our observation is that we need to rethink the relationship between the citizen and the state because the state, in too many cases—we are talking about the local level here, but I think the lessons apply to nationally delivered services as well—has become too powerful relative to the citizen.

One of the reasons that we are finding too many people who are highly socially excluded, locked into dependency, is not, as you sometimes hear from Government Ministers, because of the level of benefits that they are being offered. It is because of the way we deliver public services that locks them into a relationship of dependency on the state and caps their self-reliance and aspiration—their ability to take choices for themselves. In the same way that you would change or adjust the tax system to change behaviours by taxpayers, the way that you run public services affects the behaviours and the reactions of the people that are using them. When the state seeks always to take away the problem from the individual and deal with it for them, you lock them out of having any ability to participate in decisions that affect their lives. The more excluded you are, the more you rely on public services, the more that ability to choose is taken away from you and the more you are locked into models of dependency. So we are seeking to re-empower people, but the people who need re-empowering most of all are the people who are the most highly dependent.

Q4 Heidi Alexander: Some of the language that Barbara and Steve have used, in particular, is somewhat reminiscent of Big Society language. Is it the same, or is it different?

Cllr Reed: We were on the front page of *The Guardian* in February 2010 with this model before David Cameron had ever mentioned the Big Society, so you might put that question back to him in reverse. I think what is happening is there is some overlap, but also the Government is seeking to use some of this language of co-operation to mean things other than what we would mean by it. I think from the Conservative Party there is still an interest in privatisation as an end in itself. We are not seeking to privatise; we are seeking to run services in ways that empower the people that use them without necessarily seeing privatisation as the means to deliver as an end in itself. If you look at a lot of the Big Society projects or the work of the mutuals taskforce, they quite often talk about empowering the workers or creating worker-led co-operatives or mutuals to deliver public services.

If my analysis is right and it is the relative disempowerment of the user that is the problem, then creating an alternative producer-led model does not deal with the problem at all. But that seems to be where the Big Society is heading. So I think a key distinction is that we are seeking to empower the user relative to the provider and the Big Society is not necessarily trying to do that.

Cllr Parry: I would argue that empowering does not do it. We can empower all we like, but unless there is capacity and capability within that sector then all you have is a lot of goodwill, a lot of fine words, but no real action. This is not about commissioning services on the cheap. It is about doing it differently. It is about engaging communities to allow them to shape those services and, where they want to, to take ownership of those services. Where they take ownership of those services, often the citizen, the recipient, in that locality values those services greater, understands the complexities sometimes and the delivery of those services, and has some personal, social and sometimes financial investment in providing those services that can improve the quality and delivery and the way that communities value them.

We are not out, as a local authority, just to do things on the cheap. We are out to right commission them in the locality. We have put in place what we call our district commissioning leads—a set of individuals who are local business managers, if you like, in districts who work closely with all of our partners and social providers in the voluntary independent sector and others—to ensure that the relationships are right, that they are doing those things about involving and engaging communities and shaping services and that we are assisting them wherever possible in performance management. In some areas, certainly in the voluntary independent sector, it is that area of structure and management and development that they often lack the skills in, and I think if we put that in place we can help to—we are not trying to do that, but we think if we can empower because I think part of the weakness in all of this is a number of things: firstly, assuming that capacity exists already and all we have to do is empower it; and secondly, there are some risks in terms of sustainability, in terms of capability and capacity to deliver over time. In some areas where we take the risk of people eroding part of

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what we already do, over time that could affect the sustainability of that core service. If, for example, people started to take on the roles of running libraries, we have to manage the central overhead of all of that, and as libraries disappear down the road, the erosion of that overhead has to be tailored in the same way, taken in the same way. So there are complexities and issues around these things in terms of identifying parcels of activities that people could logically get involved in and trying to lift and shift that into a voluntary and independent sector. There are all sorts of risks around that.

We have tried all sorts of things around this—“business in a box” ideas. We have engaged with our staff. We have engaged with local communities to say, “Look, we are up for it. We are easy to do business with; we will support you, but what we can’t do is be unfair.” We are not going to give internal staff a greater opportunity or subsidise them in any built-in way or any unfair way to be able to compete unfairly with other parts of the private or independent sector. It has to be a level playing field. We can’t use public money to subsidise somebody else’s business idea that might occur even though it is done on a co-operative basis. We see some risks around this; we see some complexities around this; but we are committed to doing it, but we are doing it with our eyes open, and it is not just about engagement.

Q5 Bill Esterson: I wanted to follow up Ian’s comments and his point about commissioning. In my recollection of where commissioning comes from, going back 15 years or so, the idea was it was the next step from compulsory competitive tendering where the council stood there and dished out the contracts once a year or whatever. I am struggling to see how this fits either with the co-operative council model that the Co-operative Councils Network identifies or the different definition that we have used in our inquiry. My understanding is that commissioning could be to a private business for profit or to a voluntary organisation or to a co-operative or mutual, but I don’t see how what you are suggesting makes you a co-operative council under either definition.

Cllr Parry: I think your definition, with respect, is rather loose. But for me commissioning is a posh word for buying. We have organisations out there that we currently commission, voluntary organisations largely, charitable organisations that we commission to provide services for us. We could if we wanted to, and we are doing in some cases, commission a local community to run a local facility for us, but at the end of the day the accountability to the wider population is with us. We are the demographically accountable body, but we commission those organisations to run it for us in a co-operative way, so they run it co-operatively and we are commissioning that service from them. I see that as quite clearly fitting with that co-operative model.

Q6 Bill Esterson: But is the whole council going to be run in that way?

Cllr Parry: Our objective in the whole council is to move to as much of a commissioning council as

possible, which means we right commission from voluntary, independent, private sector wherever we feel that is appropriate. Largely that can be from a voluntary or independent sector or charity.

Q7 Bill Esterson: But that is not a co-operative approach as such. That is a mixture.

Cllr Parry: Yes, it is a mixed approach, absolutely. I do not know how you get to a fully co-operative approach.

Cllr Reed: I think there would be a difference in emphasis around commissioning from us as well, in that I am interested in community-led commissioning. The question is always how do you empower the community to have more control over the decision all the way through? Commissioning through the council itself is still the council taking the decisions that the community has to live with. We are looking at a model of community-led commissioning that I have taken in part from Turning Point—do you know Turning Point?—and the connector care model that they use, which involves training up people in their user group—in this case it happens to be people living with mental ill-health—to engage with other of their peers, other people using the services. The reason we do that is as a part of a peer group they have greater reach and credibility over the other people using the service. You use the information they gather from that process, sit down with our, or their, procurement experts. They have identified their own set of needs. We sit down with them and procure against that set of needs. So it is the community, in this case people with mental ill-health, who are leading the decision-making.

We are applying that to youth services and the reason we are doing that is we have issues in some of our estates—in Brixton in particular, but elsewhere as well. We have very high levels of young people engaged in violent youth gangs, carrying knives, carrying guns, killing each other. You will all have seen examples of this when it hits the headlines. At a lower level it is going on all the time. In those estates, you have extremely high levels of unemployment, quite often passed down from generation to generation, so young people have no experience or socialisation into the idea of work and believe work is not something they can access, and the majority of young people on an estate are in a gang of one kind or another. The interventions that we have been carrying out as the public sector have clearly not been effective enough, because the incidents of violent youth crime is rising, not falling, despite the vast amount of money that we are spending on attempting to stop it.

That is an issue for me, but it is a much bigger issue for a mother living on one of those estates whose child is starting to get involved in the gang. Her child’s life is at risk, potentially. His future is certainly under severe threat, and en route to doing that he will destroy the fabric of the community around him with other young people that are getting involved in gangs in that way. Parents and communities in that circumstance very often believe that the state is not doing the right things to deal with the problem that they are facing. Very often, they will come and thump and bang and shout and demand things are done

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differently. More often, unfortunately, they will just sit back and allow these things to happen and see their children's lives get ruined. In some cases you will see on estates like that parents taking action for themselves—not just parents; they will engage local faith groups, other community organisations, other parents, older young people who have got out of these problems. They will start taking action for themselves like running football teams, making connections with locally available services, making connections with local businesses or the college, setting up informal peer mentoring schemes, and they will have higher levels of success in steering young people away from danger than the statutory services are having.

Our view is that instead of the council running services over here that are having limited effect and the community down here either fighting against the council for not listening to them or doing their own things that have a bigger impact, bring the two together. By using a community-led commissioning model, we can make our resources available to the community, so that they can use our resources to fight the problem rather than waste their energy fighting the system. There are mechanisms that you can bring into that to ensure that it is the entire community that is involved in this decision-making, not just a self-selecting subset.

I think this facilitated model of engagement that we have taken from Turning Point offers a means to do that. We train up people from the affected community to engage with their peers, look at the data and information that comes out of that and then identify with them a pattern of provision that will meet their needs and look at how we can procure against those needs. In some cases that will be through the community itself, so creating employment opportunities, but where a higher level of technical expertise is required, helping to identify sources externally can bring those services in. That is co-operation between the council and the community in dealing together with a problem that they are facing. My view is that it will be far more effective at dealing with the problem than what we currently do, which is to tell them what is going to happen, and it does not work.

Q8 Heather Wheeler: Thank you very much. They are long and detailed answers to the first set of questions that the Select Committee have for you. I am fascinated by Unison's approach to this—they suggest that the concept of the co-operative council would not be anything other than rhetoric. What is your view on that?

Cllr Reed: I just gave an example of the exact opposite, I think.

Q9 Heather Wheeler: The headline is, "Councillor Steve Reed says Unison is wrong".

Cllr Reed: In this case, yes, they are. That is not the first time I have had to contradict things that some of our union friends have said. We got to this not by sitting in a dark room and getting some policy wonks to think up how things might be different. We looked at what was working in our borough and whether there were things that those services had in common. It

looked to me that the higher the level of engagement by the people using the service you had, the more effective the service would be, by and large. For instance, we had a community clean-up operation that got the community involved in identifying pieces of derelict space that had been a blight on their community for many years. Traditionally the council would just come in every six or 12 months, raze it to the ground and then the problem would recur; the brambles would regrow, the rubbish would be dumped again. We found that if we got the local community involved in doing the clearing up and gave them the resources, the tools, the wood, the seedlings, whatever, to turn it into something desirable then the problem would not recur because they would look after it. But you also got a benefit from greater levels of community cohesion in the locality. That is not replacing public sector jobs with volunteers; it is doing something that was not being done that strengthened communities.

We have a children's centre that is run by a management board made up of the local community in a facility that they built themselves after we asset-transferred a disused laundrette that had sat there for 30 years in the middle of this estate. It is one of the most successful children centres in our borough. We have the country's only parent-promoted secondary school, which was set up after a consultation run by parents in the West Norwood area of Lambeth. That was so successful that in terms of applications, before the school had even opened, it was one of the most popular schools in the borough. That is a remarkable thing for a school that does not exist at the time but shows the credibility that you can build by involving the community more strongly.

On co-operative housing, just over the river, Coin Street is a very well known co-operative housing scheme. In the UK only 0.6% of our housing is co-operative. In Germany or Canada, it is about 10%; in Scandinavia, it is about 20%. I am very interested in expanding the amount of co-operative housing because it gets rid of this quite artificial divide that we see between tenants and leaseholders on our estates. It gives people on low or fixed incomes the opportunity to meet their aspiration to own, but without sucking them into sub-prime lending or the risk of repossession, because if you are building up an equity asset over time and your income collapses you do not lose your home; you retain the equity you have built up. You just stop buying more until your income recovers. But the community itself has more control over the housing that they are living in. You will know from your own patch, I am sure, very often tenants are highly dissatisfied with the quality of their housing and the quality of the management of that housing.

Q10 Heather Wheeler: Fortunately, we have the fifth best council housing in the whole of the country. Councillor Parry and Councillor Brownridge, how would you suggest that you are going to measure success?

Cllr Brownridge: Can I just comment on the union part first, if you do not mind, because I think if we do not involve the unions, we can hardly be called a co-operative council if we are not even co-operating with

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our own workforce. That would be a shot in the foot. In terms of my council, the actual work we have done so far and our public approach to this has been co-designed with the workforce and with the trade unions. We come from the point of view that we think the public sector has a lot of expertise in the field of council services and to throw all that away and just say, "Let's go to the private sector," and that is not to say the private sector doesn't have things to teach us as well, I am not saying that, but there is a lot of expertise in the public sector that we need to build on. Like Steve, our view is that if you are delivering the services that people want, the job satisfaction in being a part of that is much greater than just going out and doing something over and over again that nobody appreciates and does not like. So there is every incentive to involve your workforce, because if you do not take them along with you, it is just not going to work.

One of the things we have done in Oldham, which Lambeth have now pinched off us, is that we have said to the members of staff we will support them on three days a year if they want to go out in the community, use their knowledge to volunteer and help out in the community. That has been an overwhelming success. Staff really signed up to that, so much so that a lot of them have continued to do that volunteering over and above the days that are supported by the council.

What we have said is specific issues will arise as the process goes down the road. We are pledged to discuss those individual issues with the trade unions and come hopefully to an agreement, but so far they are totally committed and fully with us.

Q11 Heather Wheeler: How will you measure success? How will your punters know that you are doing a good job?

Cllr Brownridge: How we will measure success is that we have more public engagement, because that is what this is about, to my mind. The fact that we have such pathetic turnouts in local elections is a severe worry. Anybody who is interested in democracy should be worried that people feel no incentive or obligation or benefit from voting and taking part in local democracy. So this is very much about saying to our electorate, "Right, we are going to treat you like mature people, like we as voters always say we want to be treated. We are going to tell you the problems we have. We are going to get you to help us decide how we are going to deal with the drastic cuts that we are having in budgets." The proof of whether that works will be that we will have more public engagement.

Like my colleagues here, we are devolving budgets down to a local level. We have the local hub now; we have the local town manager; we have youth services devolved; we have street cleaning devolved. We have a small budget, not an enormous budget but a budget, and each area decides how to spend it.

So the proof will be that that works, that people start engaging, and the onus is on us as ward councillors. It will be a much bigger responsibility for ward councillors. They will have to be out there doing this. It is going to be a shock to a lot of us, I think, but we

are going to be out there. We are going to have to engage properly with our communities, and we are going to have to be accountable, because if they say to us, "Our priority is this," and we say, "Well, tough, we are going to do something else," we are going to have to have a damn good explanation as to why we are doing something else.

Q12 Heather Wheeler: Thank you very much. Councillor Parry, how do you think you are going to measure success?

Cllr Parry: Satisfaction. Greater ownership. Greater value. Reduced bureaucracy. Overall improved services. That is about it. We don't give our staff time off to do voluntary work. We have a very good voluntary scheme in Staffordshire, and we expect people who don't get paid to take time off to volunteer, to volunteer. I think it is a social duty rather than something we incentivise financially people to do.

Q13 David Heyes: Both Barbara and Steve have used transactional terminology about getting away from a parent/child relationship, creating an adult/adult relationship. Clearly, that is desirable. I can see that particularly what Steve said about developing community-led commissioning and training of service users is involving people and taking it forward, maybe in a social services context, but where I struggle is to understand where the evidence is that across the board, across the whole range of council services, service users really do want a greater role in the design and production of services. Where is the evidence for that?

Cllr Reed: I think what is interesting about this agenda is that the innovation is not in any of the particular services that we are looking at. You can always go and find an example of a co-operatively run service in any particular service area somewhere in the country. The innovation is trying to do it across all the services at once. You can go and find examples of where it has worked in any particular service and talk to the people that are delivering it and the people that are using it and hear from them, and they are often quite evangelical about the benefits to them in doing it.

The core reason why people would participate in this way—I should roll back a bit. It is important to understand the difference between participation and volunteering. This is not an agenda that expects people to volunteer to do things that the state is no longer doing. It is a model of participation, and people will participate in decisions that are being taken about them if it matters enough to them what the outcome is. Back to my youth services example, if you have a mother on an estate, and I have met mothers in this circumstance, whose 13-year-old boy—it is usually boys—is getting involved in a violent youth gang, that mother wants that child's life pulled back on track. She does not want her child getting into that kind of life. She sees public services, as they are currently being run, failing to deal with that problem. She wants to be involved in the decision-making process because she believes, and she is right, that as a mother living in that community, she has insights and views that

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need to be taken into account in the design of the services that are going to meet that need. That is why she will participate, because she has a vital interest in what the outcome is.

What we are not asking her to do is run the service. We are simply trying to find a mechanism that allows her and people like her to be able to influence the decisions that will affect her child's life and therefore her household. This is not about replacing professionals with amateurs or paid staff with volunteers. It is about allowing the people who are affected by the decision to have full participation in what that decision is, and that requires a change in the power relationship between the provider and the user.

Q14 David Heyes: I want to hear what Barbara has to say, but that seemed to me like a restating of your view on it, and I do not have a feel from you where in your local context—the evidence is that there is a movement by service users, by your citizens to want to be more involved in all this. Clearly, you think it is a sensible thing to do. Actually, I do, but what—

Cllr Reed: Shall I give you an example? Does that help? Just in the run-up to the elections, David Miliband visited the ward that I represent, Brixton Hill ward, and I took him to Blenheim Gardens Estate, which is a council-owned estate in the middle of Brixton. Ten years ago, that estate had very low levels of interactivity between the people who lived there. The central part of the estate, which is called the Mall, was a place where drug dealers hung out. People were frightened to go out of their homes. They were dissatisfied with the quality of housing management. Repairs were slow to be done and were done inadequately. The time that it took to re-let an empty property was higher than the average in Lambeth.

Since then, we have set up a tenant management organisation on the estate. All of those problems have been remedied. The Mall that was a drug-dealing corridor has now been turned into a pleasant green space that the entire community uses, including young people. They have community growing schemes on there. The level of rent collection has gone from below the average in Lambeth to close to 100% per annum. The quality of the repairs service is so high that I no longer get any complaints about it. I have not had a complaint for years in my casework bag, and I get many from estates that are still directly run by the council.

Taking Mr Miliband around the estate and knocking on doors, person after person after person was saying, "I love living here. I would not want to live anywhere else. It is such a great community to be part of." David asked them, "Would you want it to go back to how it was before the tenants were in control?" No, they did not. They wanted it to stay as it was. In fact, they are exploring models to give themselves more control in future by either becoming a self-standing Registered Social Landlord (RSL) or becoming a housing-co-operative.

Q15 David Heyes: I live in Oldham Borough, as you well know. I do not detect a popular clamour to—

Cllr Brownridge: No, but I think you are asking us to prove we are innocent. The fact is that there is not that clamour because people have never been offered this opportunity, and what Steve sees is when they are offered the opportunity they seize it with both hands. I think the evidence is that people, by and large, are not happy with the services councils are providing for them. I think that is your actual evidence, that the system is not working as well as it should be and the fact that the budgets are being slashed is highlighting the problem. It did not matter too much when we were delivering lots of universal services. The fact that they did not necessarily work completely across the whole borough did not matter that much because you have a higher level of service. If we are talking about having to start eating into that service, it is incredibly important that what we do deliver delivers, otherwise we are just wasting money we do not have.

I think the evidence is that when you—like in Oldham in our Aiming High programme for disabled children, we have gone to the parents and said, "Right, you are the parents, you are the carers. What could we do to tweak this to make it better?" and they will tell you because they are receiving it; they know what they need. So I suspect it is because we have not gone out properly and asked people before. I think you are right: the hardest part is going to be reaching the sections of our community that Steve alluded to, the most deprived who are not used to taking responsibility, do not feel they have anything to offer and are too busy surviving to care very much. They are the people. We have to make sure this does not just benefit nice middle-class people who know how to work the system but goes across the board and helps people who at the moment are very grateful for what they get, even though it might not be what they want.

Cllr Parry: I think it is about three things. It is about appropriateness; it is about appetite; and it is about opportunity. Appropriateness, because it is simply best practice to ask service users what they want and what they need. You can break that down. We can all offer you examples of where that works well, whether that is in a housing environment, whether that is in an education environment, where local people will come together and help to shape a service because they are the service user and they can tell you what they want, and they can form themselves into some sort of group in some way and they can get involved. That is where the appetite comes in. Is there an appetite to want to do that? Some people just want to pay their tax, go out to work, come home at the end of the day and find their dustbin has been emptied. They do not necessarily want to engage in telling you how to do it. On the appropriate level of engagement, I do not necessarily want to engage people and ask them how we should lay tarmac. I will ask them what our priority should be in terms of whether we should do a repair on a needs basis or on a time basis or whatever. There are certain ways and certain things we can ask and engage people in.

Then finally to opportunity, and that is, do people know that they have an opportunity? Do they know there is a vehicle or a channel at which they can input at certain levels? It may well be that they want to be

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fully engaged in it, decide what colour their front door is going to be painted and how their open spaces are going to be managed and things like that. But they may not necessarily want to be engaged in how the potholes get filled. They may well want to do that. We have to provide those opportunities and chance for it. So, for me it is around those three things.

Q16 David Heyes: This is a last follow-up question to each of you. I will start with Barbara again because of our local knowledge. I would be concerned about how you make sure that all or a very large proportion of your citizens are involved, rather than just a vocal minority. We know who the usual suspects are. I suspect you and I would put the same names on a list if we were to sit down. They are vocal. Maybe they are the people Steve referred to as evangelists. How representative are they, and how do you stop the whole thing that you are about being hijacked by them?

Cllr Brownridge: I think you have put your finger on the big problem with this agenda. I do not argue or run away from that at all. I think that is where the onus is on the local ward councillors who are going to be leading this process. They have to go out there and talk to them, because Ian is right: it is about opportunity, and huge swathes of our community do not know there is that opportunity. It is all right saying to them, "Tell us what you want," but if you say to people, "What do you want?" they don't usually know. They know what they don't want, but they don't usually know what they want. It is very much going to be a matter of it being led by the ward councillors as community leaders to go out there and discover this and educate people and help people to understand it.

I am not going to pretend it is easy because I don't think it is. I think that is going to be the hardest part of it all, but it seems to me it is very much a matter of us going out there, being far more proactive, far more constructive. Rather than just say, "Oh, we have a pothole, we will get it fixed," we have to be out there saying, "It is a choice between this and this." The important point is it will be different for each of the different areas. I think that is the fundamental point—we are saying it does not have to be the same in Saddleworth as it is in Coldhurst. Needs will be different in that part of the borough, so it is a matter of us teasing out what those needs are. It may be at the beginning we have to make some of those choices ourselves, because the public will not be with us and once we start delivering the wrong thing then they will be saying, "That is not what we need." So it is going to be an ongoing dialogue. It is not going to be, "Right that is the solution this week." It seems to me it is very much making an opportunity for both sides to keep talking to each other for ever, not just for two years or three years, but a dialogue will exist as long as the system delivers any sort of services.

Cllr Reed: Can I just add to that, because I take a slightly different view, if you don't mind?

Cllr Brownridge: I do.

Cllr Reed: That sectional capture, whether by the sharp-elbow middle classes, one group, any other group that seeks to get control ahead others is a risk

within this agenda certainly, but the advantage of knowing that it is a risk upfront is that you can mitigate it. The reason that we are focusing in my borough on the community-led commissioning model is I think it gets you round that risk. What we are not saying is, "Right, we want you to get involved in taking decisions on estate X about youth services that are going to be delivered there. Come to a meeting at the town hall at 7 pm on Wednesday," because you will only ever get a particular subset of people that will be in a position or have the inclination to come along to that. That is how you get takeover by one particular sectional interest. The reason that we are going for this community-led commissioning model of facilitated engagement, training up people from the particular community or the particular user group to go out and engage with their peers, is that that way you get past the people who would always turn up to a meeting like that and talk to the people who never would dream of coming. So you can reach right into the community, get right under the skin of the community and understand deeply what their needs are, then sit down with our procurement people and procure against that.

The other benefit of that kind of commissioning model is that you can have decommissioning as well, so you have a much more immediate and direct accountability to the community that is at the receiving end of the service, because if they don't like it, they can decommission it and replace it with something else. So it is not dependent on people self-selecting and turning up. There is no question of the sharp-elbow middle classes getting their hands on it because we are using a model that avoids it.

Cllr Parry: I am afraid that is part of life. I am sure that you as Members of Parliament—and I know with local councillors—probably have the same experience. I had that experience with my division. You would think road safety was an area where you could really engage with the community and get some valuable feedback. I had a small minority of people kicking off about speeding on a particular road and turning up at parish council meetings, "And we want speed humps." "Of course you do—the most popular thing going." They were adamant, and so was the local parish councillor, that we need speed humps in this road. I said, "We are not doing it until you have contacted every resident in this road, the whole damn road, get them into the village hall, and we'll have a chat." So we all come into the village hall, we have a chat and I said, "Right, folks. Who in this village hall would like speed humps?" and of course those few people put their hands up. "Who wouldn't?" and the whole thing went up as against.

We know that small minorities can control and influence far more than their numbers should justify, and I think we have to be careful. We wrong provide very often in local government because we misjudge. What we have to do is best practice in terms of listening and understanding, analysing, finding the evidence base and trying to develop things and testing them out first. It is not a question of just listening to a few. It is a question of trying to scope things out and taking the widest possible evidence and, if you

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like, survey customer contact that you can possibly do.

Cllr Brownridge: I understand this also. We have these different districts now and we are focusing on people who live in them to take pride and pleasure in living in them. So you are going to try and reach a wider section, again not just the people who are politically or community active, but people who are residents, to encourage them to take a real pride, to say, "I live in such and such a ward." That is great, and become involved that way, plus all the usual things, the tweeting and twittering and whatever you do. That passes me by, but using all these new media, we get in touch with the folk who don't do it like I do, by paper. I use e-mails but definitely not Twitter.

Q17 Mark Pawsey: Chairman, Heidi asked whether our witnesses were talking about the Big Society. As I have listened to Councillor Reed talking about a mother being able to influence what goes on that affects her son and the likely changes that David Miliband saw when you took him to an estate, and as I listened to Councillor Brownridge talking about the local ward councillors leading the process and that we need different things in different parts of the borough, and Councillor Parry talking about engaging with the local community in a village hall about speed humps, you are talking about localism. That is a broad principle of the Government, which is to get as much decision-making power down to as local a level as possible and then you will get more engagement. This is simply localism by another fancy name, isn't it?

Cllr Brownridge: No. No, it is not.

Q18 Mark Pawsey: On what basis do the principles you are talking about differ from localism?

Cllr Parry: I think this is the problem. This is where we are at with this. Localism, Big Society, co-operative councils—there is a little bit of a blur around all of this stuff. I could go out into the street and I could probably get as many definitions of those things as there could possibly exist. There is a lack of clarity sometimes around these things. We all believe in what it is, which is from a local government point of view we need to start to try to dismantle some of the things that we do and see if we can't provide them in a better way, with more engagement by local communities and with people being involved in shaping and valuing those things. I think local authorities or government of any size or nature can't do everything, and I think there has to be some movement back from communities to get involved in some of these things, to actually gap fill with us. That is what we are meant to do.

Yes, we were peppering our evidence to you with anecdotal stuff about housing estates and potholes and speed humps. I was using that as an example of the way that some people can take over these things, and what we have to be mindful of when we are engaging with communities is that we do take the widest evidence base and not just the narrow evidence base.

Cllr Reed: I think it doesn't matter if there is some crossover between what Mr Cameron calls a Big Society and what we call co-operative councils. It goes way further back than that, doesn't it, of course?

We had double devolution 10 years ago; five years ago we had communities in control; today it is called the Big Society. The point is it has never been done, including by the current Government. If you look at what is happening with schools, they are now directly run from Whitehall by Mr Gove rather than by the local community. Governments have a tendency to talk like this but not do it, and what we are trying to do in local government is find ways to make it happen within the areas that we have control over at the moment. So, yes, you will see some similarity, but I think you will also see differences. One that strikes me—I referred to it earlier—is the difference between moving from one provider-led model, which we have now, to an alternative provider-led model, by creating worker-led co-operatives, or moving from any provider-led model to a user-led model, which is what we are trying to do, because that is the way that you tackle the dependency of people who are forced to rely on the decisions of others that don't really include them enough.

Q19 Mark Pawsey: But the best decisions are made where local communities are engaged, and that is localism.

Cllr Brownridge: Nobody would dispute that, would they, but the fact is if you look at the Localism Act, it is, to my mind, a much more negative document because it is encouraging people to resist things that they don't like, not promote things that they do like. I am thinking of planning particularly. I agree with Steve: what we call it seems to me to be immaterial. The point is nobody would quarrel, surely, that decisions ought to be taken by the people who suffer the consequences of those decisions as far as they possibly can, so I think we are talking about real devolution and real decision-making at local level.

Cllr Reed: It can get discredited as well. At one point Suffolk—I think they have stopped it now—were deciding no longer to fund libraries and then dumped them on the community, the idea being, "We, with professional, experienced paid librarians, can't make these things work financially, so here you go, community, with no experience at all; you try and do it." All that is doing is dumping the problem of them not wanting to pay for that service any more on the community, because they are likely to fail if the professionals couldn't run that service in that way themselves. There are alternative models to engage the community in taking decisions about a service, how a service is run, but we must avoid just passing down to the community our own decisions to cut funding for things.

Q20 Mark Pawsey: In my constituency, people are not having libraries dumped on them. They are taking the libraries enthusiastically and putting services in those libraries that were not previously there.

Cllr Reed: Yes, good. I don't even know where you represent.

Mark Pawsey: I don't like your term "dumped", but there you go.

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Q21 Simon Danczuk: Starting with you, Ian, how much is your approach driven by the need to reduce spending?

Cllr Parry: Hardly any. We have managed to exceed our savings targets, if you like, without any of this being a factor, as it were. We just think it is the right thing to do for the future. We think it is an opportunity to give people and enterprises an opportunity to provide services in the most appropriate way. I think cost is a factor. We can't deny that, because generally speaking if you are not going to do it better and cheaper, why would you do it?

Q22 Simon Danczuk: Steve, how much is your approach driven by reducing spending?

Cllr Reed: I broadly agree with the sentiments that Ian expressed there. This is not a cuts-led agenda. It is about empowering people that are being cut off from influence, but I believe as well it delivers you better value. If you are delivering services that are more responsive to need and that are doing more of what is effective and less of what is not effective, because you are allowing the people at the receiving end to participate in the commissioning decisions, then you are going to deliver better value for money.

Q23 Simon Danczuk: Okay. Barbara?

Cllr Brownridge: I think I would agree entirely with what Steve said. It seems to sum up what I think, yes.

Q24 Simon Danczuk: Barbara, in Oldham's submission it says that, "Savings by outsourcing will plateau. Therefore there is a need to focus our drive for value and savings on reducing demand for services"¹. Is your approach about saving money by leaving residents to look after things themselves?

Cllr Brownridge: No. Obviously, our approach is in the context of knowing that our budgets have been reduced and go on being reduced. Clearly, that is the starting point. That is the parameters within which any council decisions are made now. It is not a factor that is being ignored; it is a factor that has to be faced. That is perfectly true. So it comes back to what Steve said about delivering services that deliver good value for money and knowing that we can't go on delivering everything that we do at the moment. I come back to the street cleaning example, because that seems a very straightforward one. If all the residents in the street picked up the rubbish in that street, you would not have to go and clean it once a week or once a fortnight, and that would free up the money that you could then spend on something else that the community said was something they want. What we are saying is we want a system where people put something in as well as take something out, and at the moment our view is that the council is very often a default position. If somebody has a problem, they ring the council; they don't attempt to solve it for themselves. So what we are saying is—again this is where the co-operative bit comes in—that the public themselves co-operate by doing some of the things they could do themselves, so there will be savings.

Q25 Simon Danczuk: If they didn't throw the rubbish in the first place, nobody would have to pick it up, whether it were council employees or members of the public.

Cllr Brownridge: Exactly so, and that would be phase 2, because they will get fed up with picking it up, you see.

Q26 Simon Danczuk: Steve, in your council's submission you said that it is not always cheaper in the short term to use these co-operative ways. The reverse of that is that that increases costs in the short term. So where are you going to get the cash from to deliver these co-operative ways of working?

Cllr Reed: That is the question we ask ourselves all the time. There is always going to be a cost of transformation, because you have to put in capacity to allow the transformation to happen. It is one of the reasons why the Government's decision to frontload the cuts has been so damaging really, because it has limited our ability to transform services in order to protect them for the long term and deliver them at lower cost. Nevertheless, we have identified a fund of money that we have put aside as an investment reserve to invest in services, so that we have some capacity to transform them and to build the capacity on both the provider side and the user side to operate in a different way.

Q27 Simon Danczuk: How much is that, out of curiosity?

Cllr Reed: It is about £8 million, isn't it, in total? It is about £8 million in total. The idea is that—

Q28 Simon Danczuk: £8 million of a budget of what? A local authority budget of—

Cllr Reed: Our discretionary budget was about £310 million. It has been cut by about £95 million out of that.

Simon Danczuk: Yes, that sounds about right.

Cllr Reed: So it is a pretty significant amount of money. Part of it is intended to pay itself back over a period of time in an invest-to-save model. So you get the investment in the service on the expectation that there will be longer-term savings that are paid back to the fund.

Q29 Simon Danczuk: Then a very quick final question particularly to Barbara and Steve. Steve, you described it earlier as an innovation. How strongly connected is this co-operative council innovation? How strongly connected is it to the co-operative movement?

Cllr Reed: We have been working closely with the co-operative group and the co-operative community and people who have been exploring co-operative ways of delivering services through mutuals or models of co-production. So we are drawing on decades of experience and expertise and all of that is informing what we are doing now. The way we got to it in Lambeth is we set up a commission in May 2010. That worked over several months and engaged with 3,000 local people, a large number of local organisations, but 50 organisations nationally were

¹ See Ev 83

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involved in delivering different services through co-productive or co-operative means. From that piece of work, we put together our own road map for how we would become a co-operative council. So we are drawing on as much experience as we can from outside our community as well as within it to create a model that works for Lambeth, and Oldham have had their own commission. The other councils that are part of the network have, on the whole, set up their own commissions to look at what is going on elsewhere but fit it to their community.

Q30 Simon Danczuk: Barbara, you are next door to the birthplace of co-operation in Rochdale.

Cllr Brownridge: We certainly are. Are you declaring an interest?

Simon Danczuk: Briefly, but I don't get a sense that this stuff is strongly connected to the co-operative movement. That is why I am asking the question. I need to be convinced. But go on, convince me, if you think it is.

Cllr Brownridge: Well, all I can say is we are engaged with the co-operative group and we run our ideas past them, so I suspect probably it will be slightly different because obviously we are doing something different. It is not like selling bags of sugar; it is a different thing. So I think we are talking more about the underlying principles of shared involvement, shared responsibility, rather than a specific model of the co-operative society.

Simon Danczuk: Traditional, yes. Fair enough.

Q31 Bill Esterson: Starting with Steve, you talked about invest to save. Do you see this saving money over the longer term?

Cllr Reed: I do, for the reasons I said when I was asked the question about is it to do with cuts. You get better value if you deliver more effective services, because you are doing more of what works and that means you can do less of what doesn't work. So, yes, it will deliver savings.

Q32 Bill Esterson: Ian, you see the same, do you?

Cllr Parry: In most cases, I would see that there is an opportunity to reduce costs, but I think that doesn't have to necessarily be the driver. There are other ways of doing it, if the cost is your driver.

Cllr Reed: Can I come back on that? Take the issue of youth crime. That is probably much bigger for me than it is in your two areas, because of the type of things like our youth gangs do. Heidi will be more familiar with the kind of problem we have. It is not just the cost of the youth service you are delivering. It is the cost of a young person becoming delinquent, potentially attacking or killing other young people, and stealing, having to spend time in prison, the cost of the Youth Offending Service and the opportunity cost of that young person then not getting a job and making a positive contribution. There are huge amounts of cost that can be saved if we can get a more effective model of intervention and diversion before all of those things happen.

Cllr Brownridge: I think it is important we judge value, not just in pounds, shillings and pence, but it is those social, economic and environmental benefits

that services of empowerment and engagement can give, so assessing what you mean by value is very important. But yes, ultimately the bottom line must be if you are delivering better services, then you must be getting better value for money.

Q33 Bill Esterson: Coming back to the question about evaluation and measuring the success long term, are you going to try and measure? I think this point about the long-term financial gains is an incredibly important one.

Cllr Reed: We all try, and we try to work out how you do that, but when you have a number of agencies involved in delivering the service, it is very hard to set a benchmark against which you can quantify, but we are attempting to do that. We could send you more information on that, if you like, because there are people that will be more familiar with the detail of that than I am.

Bill Esterson: That would be very useful, yes.

Q34 Heidi Alexander: Can we talk a little bit about what the co-operative model means in terms of democratic accountability locally? Obviously, if you are providing services in different ways, they might start off very well; it might be all quite rosy, but things, I guess, could go wrong. I know you talked about a library service earlier; fewer people using the libraries, books not available, numbers of books being borrowed goes down. All of a sudden you have a public outcry about that. How do you deal with that and do you see a problem in terms of—

Cllr Parry: If I may start, it is an easy one. We are responsible and we are accountable, so whoever provides a service, at the end of the day the only person that gets the pain is the democratic body, the local authority. So, irrespective of who is providing it, if we have not provided it in the right way through a commissioning or co-operative or mutual way then we are responsible for that. We need to make sure that that service is provided, whoever does it, whether we are doing it or someone else. It is a simple accountability equation.

Q35 Heidi Alexander: Do you all feel the same on that?

Cllr Brownridge: I would put it more positively than that: because we are democratic leaders, we will be out in the community and that would never happen because we would know we were going down that route before you ran out of books or people were not able to access the facilities. It will be down to the individually elected members to take that accountability, and not just every four years, but every day because they will be out and about in the community and answerable. People will literally stop you in the street and say, "Hey, you are not doing that right, because we know that you are supposed to be doing it," and that is the point. We will be the actual face of the council that they know is the person responsible. Ian is right; it is our responsibility—obviously, it is—but if we are properly engaged in that community, we ought to be seeing those problems coming before they come, and you will have a mechanism in place then to discuss that and sort it out

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before it becomes a problem. Rather than having to solve a problem, you are going to prevent it happening. That is how I see it happening.

Cllr Reed: Can I put that slightly differently, because I think the current model of democratic accountability is more apparent than real? If you don't like the way your housing estate is being managed or the circumstances that you are being forced to live in, if you don't like the homecare services that affect your life every single day, then the fact that you have a vote once every four years is far too remote from the problem that you are facing to deal with it with any kind of immediacy that the nature of that problem demands. If you create a model of service design, delivery and commissioning that is based around the community that are using it, that involves the ability to decommission as well as to commission, you have a much more immediate form of accountability directly to the people that are using the service that is way in addition to the ability to put an X on a piece of paper once every four years.

Q36 Heidi Alexander: I am quite interested in what Barbara was saying about the responsibility upon elected members to be in there right from the word go, understanding what is going on, recognising those early warning signs of perhaps problems, and if we had exemplary councillors all across the country then I am sure they would all be out doing that.

Cllr Brownridge: We are lucky in Oldham, obviously. We are very lucky with it.

Q37 Heidi Alexander: I think my point though is that not everyone is an exemplary councillor. There are many exemplary councillors, I should say, but not all of them are. How then can you force the body that is providing the service in a different way to respond to the concerns if you don't have those mechanisms of control that you would have done if you were directly providing the service?

Cllr Brownridge: Well, I think the answer must be in how they commissioned, the actual terms of the commission if you have given it to somebody that is not the council. As Steve said, if you commission, you can decommission, so that has to be the ultimate sanction, that if they don't do it, you take it away from them. So there would have to be some punishment mechanism involved, so that somebody gets into trouble if they don't do what they are supposed to be doing.

In terms of the councillors, that is the point; that is the sea change. There is a sea change required for this, not just from the electorate but from the actual elected members, too. Part of what we are being told is there is an obligation to go on training, there is an obligation to sign up to this, and there is an obligation to do it, and we are being told in my group if we don't do that there will be sanctions.

Cllr Reed: Can I add to that as well? I don't think this model can be dependent on the quality of councillor that you have, otherwise it is far too fragile. That is the reason we are focusing on community-led commissioning, because it gives the community of users of any particular service the ability, through appropriate facilitated means, to commission or

decommission the service, so there is an immediacy to what is going on there. Any of the services that you are running in these ways will be contracted, and within that contract there will be a minimum performance standard, which if it is missed, the council will have the power to intervene, take the service back if necessary and then retender it or recommission it elsewhere, so you have a guarantee that way. I think the role of the councillor is not to oversee the whole model, but it is to act as a kind of a networker within the community that they are representing. We are training our councillors with community organisation facilitation skills, so that they can work with communities of need in their own areas and help to bring them together and link them to resources that may be available to them to help meet that need, rather than overseeing the commissioning structure. That is done through the professionals in the organisation, so it is not dependent on councillors but councillors can play a strong role in it.

Cllr Brownridge: It is dependent in the sense that they are that conduit between the community and the services. So it is dependent in that sense, yes.

Q38 Heidi Alexander: How can you always be confident that the community that you have that is involved in the commissioning is truly representative of the community that the service is being provided for?

Cllr Reed: If you are using a community-led commissioning model and you are training people up from that community to engage with other people, you can ensure that it is a representative sample that you are talking to.

Chair: I think we should probably move on.

Cllr Reed: No, because it is important. You raised your eyebrows at that. It is critical to making it work, but why not? If you have a community of 350 homes on an estate with a problem with gangs and you know that there are 70% unemployed, 60% single parent households, a certain percentage on benefits, a certain percentage living with disabilities, you can create a sample that is representative of all those sections of the community—just in the way that sampling works for polling, for instance—and make sure that the facilitators you have trained up speak to a representative sample of all of those different groups, so you get a real sense of the whole community. It is statistically and mathematically a proven model.

Q39 Heidi Alexander: There are some services, such as a housing estate, that lend themselves relatively easily to that sort of situation. I suppose in my mind—and perhaps that was the reason for the raised eyebrows somewhat—other services are a lot more complex than that. If you took the issue of, say, youth services across the whole borough that you are providing your services in, as much as you attempt to get a good cross-section and representative cross-section of people to be involved in that commissioning process, you could easily end up with a situation where you just don't have completely all the right people involved and the buck then comes back to you—doesn't it?—when a group turns around and says to you—

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Cllr Reed: I don't see why you say that, given that sampling is a very well-established model. You know broadly the different subsets of people that you have using a particular service. There is no reason you can't talk to a percentage of those representative of all of the different groupings within it that gives you within as near as damn it a sense of exactly what that community needs. With youth services, we are not looking at how do we provide a borough-wide model for that, because it doesn't work that way. What works is understanding the needs of each individual community, each individual estate that has a problem, so we are trying to get a model that is entirely tailored, directly tailored to the needs of each estate that has a problem with violent youth crime, but also recognises that they have something to bring to solving the problem as well and tries to harness that capacity within the community. You don't have to speak to every single individual to get a representative view of that community's needs.

Cllr Parry: I understand the principle of a sample at random is representative of the whole mathematically, but we have to accept that this isn't a representative sample necessarily, so therefore it is an imperfect model. We will have the coalition of the willing and the coalition of the wanting to be involved, rather than a sample that is perfectly representative of the whole. Generally speaking, it is not like that, because life isn't like that. Life is imperfect. What we do is the best with what we have, so those people who want to be engaged, as in all walks of life, will be engaged and they will have their say. If you want to have your say you have to turn up, and that is the nature of democracy. If we are getting involved and engaged with communities, we have to accept sometimes it is an imperfect model. We have to do our best with it but understand sometimes that where we do have people who seem to be leaning in a certain way and that causes conflict or friction elsewhere, we have to be ready to perhaps engage and involve ourselves and to see why that is failing or why that is not working well. It is not ideal.

Q40 Chair: Very briefly to Steve Reed, I listened to how you see the role of your councillor there as part of that. Wouldn't councillors think they are probably elected to provide a strategic role in service delivery and you are turning them into community workers?

Cllr Reed: There is more of a community worker role around what they will be doing, but I suppose you have to look at what is the role of a councillor now, really. Quite often, you act as a secondary complaints system. The service isn't working; they have tried to complain; and they are not satisfied with what has happened. They happen to know that there is such a thing as a councillor—and they are already in a minority if they know that—that they can go to try and get some further help. So we are a secondary complaints system that tries to identify gaps or flaws in the delivery pipe who intervene to try and get that problem fixed. That, plus you vote on the allocation of resources across different services and budget setting. I think, at core, that is what a councillor is now.

Under this different model that we are trying to shape, I think the experience of a councillor becomes much richer. It is more around a community worker; it is more built around community organising, trying to facilitate groups of people that have a particular need to come together and link them up with resources that may be available, either through the council or elsewhere, not just advocating for the community but trying to empower the community with the resources that are available to them to meet the needs that they have.

Chair: We do have some time constraints, so if we can just try and focus our responses and our questions.

Q41 Bob Blackman: In the evidence from Lambeth, Steve, the attitude of the staff is challenging, so what is the message to staff about what is in it for them, in a brief message?

Cllr Reed: That is particularly tough if I have to do it in brief. I think, to start, they can have an enhanced experience as an employee, because if you change the way that services are being delivered so that the frontline is empowered on both the provider and the user side then the staff have a bigger say earlier on in how the service is shaped. Very often, the staff feel that they are weighed down by multiple layers of managers—

Q42 Bob Blackman: Sorry to cut across you, but you are talking about empowering the users to determine what services are going to be provided and how they are going to be provided. Surely, the staff are then being told by the users, "No, this is the way we want it, not the way you, as staff, have shaped it." You are changing it, surely.

Cllr Reed: We are trying to equalise the power relationship between the user and the provider, not to take either side out of the equation. My view is that currently the users don't have a big enough say. If you gave something entirely to one side but took the other side out of the equation entirely, you would have created another model that wouldn't work very well. You have to recognise that both the provider and the user have something of value to bring to the discussion or the decision-making about how a service will be shaped and will be delivered. Models that allow more decision-making to be taken at the frontline in that way empower staff as well as users.

Q43 Bob Blackman: Some more cynical people might say this is a means of protecting staff working for the authority, rather than thrusting them out to the evil private sector. What is the stance there in Lambeth?

Cllr Reed: I think that is a false question to raise, because the purpose of this is trying to deliver more effective services, and if pushing decision-making down to the frontline, so that both the people giving and receiving the service directly at that interface have more control and you get a better outcome, then that is what matters. The point is not to protect the staff as an end in itself, although we all need to be good employers. The purpose is to deliver better outcomes for the people who are using the service.

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Q44 Bob Blackman: Can I ask Barbara, which services in your council, or local authority now, would you classify as being co-operative or mutuals and what experience has been obtained as a result?

Cllr Brownridge: I think I am right in saying we haven't actually got to that stage yet.

Bob Blackman: Right. So you are early days in that?

Cllr Brownridge: Yes. What we are doing is we are building up a set of business models at the moment, because what we want to do is sort out what it is we are trying to achieve and then work out what the best way of achieving that is. So the answer might be that we want to go to a mutual or a co-operative, or in terms of adult services, we are looking at some sort of hybrid by a joint mutual and council-run company—something of that order. But we are not really at that stage yet.

Q45 Bob Blackman: One of the other issues that I wanted to raise with you specifically was you spoke eloquently about if everyone cleans up their own street you don't need to clean the streets, but life isn't like that: 100% of people will not say, "Don't worry, I will collect my own litter here," and other services will be the same thing. Is it going to be the majority rules or is it going to be significant minorities that determine this? How are you going to make those decisions? To get 100% of people to agree on something is almost impossible in this world.

Cllr Brownridge: I would entirely agree with you and I think the answer to that must be that we have to develop our Love Where You Live initiative so people want to do it because it affects them on their doorstep, but there will be an element of sanction and reward. Inevitably, there will be peer pressure that if you live in a street and you are the one person who lobs your rubbish out, your neighbours are going to start banging on your door. There will be that and there should be that, and that is part of taking the responsibility. But there will also be a duty of the council to monitor where people are breaking the law by fly-tipping or whatever, that you step in and show people that they are not going to get away with that either. Ultimately, it is going to have to be because people want to do it. If Ian is right and a lot of people just don't care enough to get involved, then it really isn't going to work, is it? It has to be about people taking pride in where they live and being given the opportunity to make something of that, so they can do things that make a difference in their neighbourhood.

Q46 Bob Blackman: How are you going to take your staff with you?

Cllr Brownridge: Because most of them live in Oldham, so most of those are residents as well as staff. But I think Steve is right; it is about saying to those people, "You are doing a job that is valuable. We value your contribution. We know that you know about doing this. We want to give you the power to say, 'Why do we do it like that? It would be much better to do it like this.'" If you are giving them some autonomy and involvement in outcomes, as well as the people receiving it, then they are going to be committed. They are going to have job satisfaction, surely. Rather than just going home and saying, "Oh,

I've had another day at the office," they are going to say, "It was great, because we did this today, and we achieved this." So it is about giving the opportunities for people to make a difference for themselves, I think, whether they are an employee or a ratepayer or a councillor.

Q47 Bob Blackman: Ian, what is the experience in your part of the world?

Cllr Parry: We have a pilot that is due to end next year and there is a national evaluation as well being done on it, which is around social work practice. It is basically lifting out a district of social work for young people in care and running it like a practice, so they get a chunk of money and off you go. There is light touch kind of supervision and management around it. They run it co-operatively. They take out all the sort of hierarchy and supervision that is normally there. The experience of that has been quite good in many respects. There have been some concerns about it, but generally speaking quite good. Turnover of staff very often in social work can be a problem. That has been arrested in that particular isolated example. They have innovated a contact onsite kind of initiative. A number of other initiatives that they have developed, they have innovated themselves. I think that is part of the value of mutuality, if you like, or co-operative status, that they have some autonomy to understand youth requirements better, not to have to go through three layers of bureaucracy to make some changes but to be nimble and lean and flexible to be able to adapt well. So that is there, but in local government we have to accept that if there was a large pool of entrepreneurs in there, social or otherwise, they would be out there sipping pink gins on a yacht somewhere, I guess, because they would have done it already. But what they are doing is they took a career in public service for a reason, in that they wanted to work in public service. They did not necessarily want to go out and be entrepreneurs. Nevertheless, if we can encourage, and we do encourage—and there are a number of areas we are working on at the moment, where we could take out key activities and place them as a social enterprise or whatever. I don't care if you list it on the New York Stock Exchange as long as it is a right provided proper service and it is sustainable. If they can do that, that is a good thing, but we also have to be mindful that we are putting resource and support and giving breaks to people. I am sitting out here maybe as a private sector provider and saying, "Excuse me, but that is public money. Can I have some of that, please, because that doesn't seem like a level playing field?" So we have to be mindful of the taxpayer diligence around this as well, and are we doing the right thing for the taxpayer.

We want to do all those things; we want to encourage people to do it. We want people outside in the private, voluntary, co-operative sectors to help us to dismantle what was the old model of local government because we can't afford it any more, and it necessarily isn't providing services in the right way for the future, so there are those things that we need to do. The existing and old model of local government probably is not fit for purpose, or isn't fit for purpose, and we need to

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do something about it. This is one route that, as a mix of strategic choices in the future, I think is part of it.

Q48 Bob Blackman: Steve, what percentage of your council services would you classify now as being in the co-operative or mutual side?

Cllr Reed: We are currently trying to move them towards those models. I won't repeat the list I gave earlier of the services we already had operating like that that were part of our inspiration, and they are not all within the council. Some of them were services being delivered that way in other parts of the public sector or within the community that we learnt from. We are currently looking with some housing estates to move them to co-operative models of management and/or ownership potentially. We are currently setting up a youth services trust borough-wide, into which we will move a large proportion of our youth services resources, funding, facilities and staff. Anyone that lives in Lambeth is entitled to join that trust. It is called the Young Lambeth Co-operative. They will elect a representative body. That representative body will elect a board that will oversee a community-led commissioning model that will determine which services are available on each particular estate.

Q49 Bob Blackman: That is a couple of areas, but would you say this is the model for all of Lambeth's services or just for some specific ones?

Cllr Reed: No, as far as possible the default position will be that we want to move all of our services to this model. I am sure that as we move along there will be reasons why particular ones can't go straightaway or need to go more slowly, but it is not one rigid legal model that we are trying to apply to all services. It is the principle of co-operation, of equalising power between the provider and the user, and in any particular service that plays out differently in terms of the model that you end up with.

Q50 Mark Pawsey: Councillor Parry, you referred earlier to the social work practice. I take it that was Evolve YP?

Cllr Parry: Yes, that is right.

Mark Pawsey: Can you just tell us a little bit about how that came into being and what the challenges were in getting it set up?

Cllr Parry: It was an opportunity through, I think, the previous landlords here to be involved in a pilot scheme, and I think there were several set up across the country. What we did was take a district, which is Newcastle-under-Lyme, and give a group of employees, social workers involved in children in residential care, the opportunity to operate that as a practice, like a GP practice in a sense, and for them to take complete ownership of all of that. So we ring-fenced it, gave them the budget, which was equal to the budget for an in-house service, a comparable in-house service, but they have, if you like, the discretion on how that is utilised.

Q51 Mark Pawsey: Right. So they were given a sort of contract?

Cllr Parry: Not in that sense. They were given a kind of ring-fenced lump of money, "Get on with it".

Q52 Mark Pawsey: For how long?

Cllr Parry: It is a three-year pilot.

Q53 Mark Pawsey: What happens at the end of three years? Do they have to tender competitively? How does that work?

Cllr Parry: Well, I think because it is a pilot the legislation means that it has to be wound up, because the law, as it exists, does not permit a social work practice in that model to exist. There was, I think, under that pilot, some form of capacity to allow that to happen.

Q54 Mark Pawsey: So there was no risk to the employees then? It strikes me that one of the concerns is that if employees move from the security of employment by the local council into one of these mutuals they may not get the contract at the end of the first period.

Cllr Parry: I totally agree. At the end of the day, they have a certain amount of employment protection in that, because if the whole thing goes upside down they can come back in, as it were, because it is a pilot. The idea of the pilot was, "Could this work? Could this model work? How would it work? Let's test it. Let's have a look at some of the problems." If you were going to do it for real, that is where you would have to expose it to failure, if you like, to really test it. But there also has to be some governance and surety around that. You are dealing with young people that are very vulnerable.

Q55 Mark Pawsey: I wanted to come on to that. You told us that it worked, because the staff turnover had gone down, and that the staff now were bringing forward various initiatives, but what is the view of the service users? Are they getting a better service under this new framework?

Cllr Parry: That is exactly right. Service users do praise it; they are getting a better service.

Q56 Mark Pawsey: Do you do a survey of service users? Was it benchmarked before? How do you know it is better?

Cllr Parry: Well, through consultation with service users. All young children in our care are regularly consulted on the quality of care that they receive.

Q57 Mark Pawsey: Was there a qualitative standard before, and what is the qualitative standard now?

Cllr Parry: We have not put numerical values on it, if that is what you are searching for, because it is all anecdotal.

Q58 Mark Pawsey: Okay. It is all anecdotal?

Cllr Parry: Well, anecdotal is the wrong phrase.

Mark Pawsey: All right. What then?

Cllr Parry: It is a survey. All young people in care are consulted on a regular basis about the service that they receive, the accommodation that they receive, the pocket money allowance they receive—all of that. On a regular basis, inspection is taking place—all that sort of thing. So we know from consulting with those young people. They would tell us—I can tell you they are vocal—if they were not enjoying a better service,

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but what they do enjoy is a service that has more continuity. They are not seeing different social workers every so often, and the social workers themselves, because they are working in a team, can support each other through holidays and things. People get to know about caseloads—all that sort of stuff.

Q59 Mark Pawsey: As a broader question, do you think there are some services delivered by local authorities that lend themselves better to this model than others?

Cllr Parry: Yes.

Q60 Mark Pawsey: Is the one you have just described the best sector for it to work in and are there some services where it wouldn't possibly work?

Cllr Parry: I think it is one of the more challenging sectors where it can work, because it is one of high-risk sectors. So to do this I think what you have to do is take it off into a corner and in a controlled way test it and not just say, "Well, let us suck it and see. Let's put it out there and wave goodbye to those people and see what happens." We can't do that. This is a very high-risk area for us. It is, as I say, vulnerable young people. But there are areas where you can probably do this in a much easier way. We have looked at things like outdoor education centres, which is an obvious one. Just cut them out, get a team who are very interested and arguably they would be up for it, and you can put that into such an enterprise.

Q61 Mark Pawsey: Do the other witnesses have views about which kind of services this model lends itself to best?

Cllr Brownridge: Well, the short answer is in principle I think any service could be run like that, but we are starting from the position of deciding what it is we are trying to do with each service. It may be when you look at it across the board you are not going to hive your trades and standards department off, for example, which you could do on the face of it quite easily, but you might think, "Well, there are other things that could be done under that umbrella that are done by somebody else at the moment. Therefore, we need to redesign that service altogether, and once we have decided what it is delivering, we then decide what the best model for delivering that thing is." I think, like Steve said, it won't be one solution for every circumstance. We could end up with a combination of different mutuals, co-operatives and in-house providers, but you start from what is it you are trying to deliver, and you work from there to decide how you will then deliver that.

Cllr Reed: No, I agree with that. I do not see why you can't apply it to everything. If the point is to give the people using the service more control over decisions that affect their lives, you could probably do that in everything.

Q62 Mark Pawsey: Every function of local government is up for grabs?

Cllr Reed: Not up for grabs. We are trying to transform every function of local government, so it is more effective.

Q63 Chair: How do you do planning, very quickly?

Cllr Reed: I don't know.

Chair: Ian Parry's public meeting there where everybody on the road doesn't want a development at the end of the road, but the planning committee needs to approve it because of the wider community good. How do you resolve those?

Cllr Brownridge: The answer is you have a good local development framework, and that is the point that for all of these you need something objective against which you are measuring. You could well have a situation always, and planning is a fantastic example, where you have real community engagement and 50% don't want it and 50% do. So whoever the decision-making body is then has to arbitrate, and the way they arbitrate is weighing up material factors that should be as objective as possible. In the case of planning, your proper local development framework has been prepared with community input but also with an acknowledgement of strategic overview and requirements, such as housing land, for example, which lots of local residents don't want but we know we have to provide. So you have a democratic input, but ultimately whoever the decision-maker is then has to weigh those various inputs and make a decision, and subsequent decisions are then taken against that framework. So that is the answer in planning.

Chair: I think Steve Reed is going to agree with that.

Q64 Bob Blackman: There is a whole range of things that the Government is doing. We have talked about the Localism Act; we have the open public service agenda; we have the mutuals taskforce. Barbara, you are saying in your evidence you need more support; you want something else. What else do you need to make this happen?

Cllr Brownridge: I don't think it is more support; it is just slightly different support. I think our involvement with the Mutuals Commission is that their advice is not targeted towards local authorities doing this. It is much more targeted to people who want to set up a mutual, so what we are saying is we would like that advice to be more targeted towards what we are trying to achieve, so that we can have that help and assistance. At the moment, we are sort of feeling we are having to go out and find a lot of things out for ourselves, where if somebody central could gather together that practice—

Q65 Bob Blackman: Do you think it should be the Government providing this or should it be the Local Government Association? Who should do that?

Cllr Brownridge: I think it will depend on different elements. There are statutory elements like procurement rules and so forth that perhaps the Government needs to make a decision on how those procurement rules should apply. There will be other things. We have this network of co-operative councils and we are sharing good practice, so a lot of it we are going to learn from Lambeth because they are further ahead than us, so we are not going to make their mistakes subsequently, obviously. So really in the spirit of co-operation what we are looking at is everybody who has any vested interest is contributing

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from their knowledge point, so Government would have a role to play and local government would.

Q66 Bob Blackman: So presumably your network has lobbied the Government. Steve, you are clearly involved with this. Have you lobbied the Government?

Cllr Reed: No. That is the idea. We are not looking for support from the Government to do this. We are getting on doing it, as I hope you have heard, but there are some barriers. Procurement is one, as Barbara just said.

Q67 Bob Blackman: When you say procurement is a barrier, local authorities for donkey's years have procured services. They have to do so within the existing law. The law hasn't changed. What is the barrier there?

Cllr Reed: I think particularly smaller organisations find it very difficult to navigate the quite complex routes through the procurement that we have created, and it not just nationally, it is locally as well. So we are looking to ourselves as well as to Government, and what we will do is identify the barriers and then make proposals back to Government of what those can be. Another one is VAT. At 3.6 on the submission that you have from Lambeth, one of the problems we identified here is that VAT can be claimed back by councils on their normal activities, but that doesn't necessarily apply to spin-outs or smaller mutuals that may need to charge 20% VAT to people purchasing their services, so you have a built-in disincentive. There are things like that that we are finding through the network, as different councils explore different ways of delivering different services. Where it is a nationally created barrier, we will feed that back to Government to see if there is something that can be done to resolve it.

Q68 Bob Blackman: Ian, have you had any experience of the community right to challenge? Has this come forth in your part of the country? What has been the reaction?

Cllr Parry: None. We haven't had any of that.

Bob Blackman: You haven't had any?

Cllr Parry: We haven't had experience of any of that, and to be honest, if I was to give any feedback to Government on this I would say, "Lower your expectations."

Cllr Brownridge: Can I just say I think the phrasing of "the right to challenge" would cause us some concerns? The right to ask constructive questions and test it out, yes, but "challenge" seems slightly aggressive to me. To my mind, it gives a slightly negative impression.

Q69 Bob Blackman: You may have a position where—I am not saying this happens in the well-intentioned area of Oldham—a local authority takes a decision to close half of its libraries and then the community says, "Well, we don't like that," "Well, tough, because you get a vote every four years and we have decided that is what we are going to do."

Cllr Brownridge: Yes, under the co-operative model, it wouldn't have happened like that. They would

already have been involved in that decision and they would have challenged it through the involvement of the local people in reaching those decisions.

Q70 Bob Blackman: That is why I think there is a status of the issue of challenge.

Cllr Brownridge: Well, as I say, I don't object to the principle; I am not objecting to the principle. It is just I think the word "challenge" is slightly—

Q71 Bob Blackman: Has there been any experience in your part of the world of that?

Cllr Brownridge: Not yet, no.

Q72 Bob Blackman: So in these difficult decisions you have had to take of reducing expenditure, the community haven't said, "Well, we don't like what you are doing here. We want you to do something else."

Cllr Brownridge: No, not yet, I don't think.

Q73 Bob Blackman: So everyone is very happy in Oldham?

Cllr Brownridge: I wouldn't say they are very happy, but I think they are very disengaged, and that is what we are trying to fix.

Q74 Bob Blackman: Steve, any experience of community right to challenge?

Cllr Reed: No.

Q75 Bob Blackman: It is kind of like what has happened in your housing estate, where people have come along and said, "We don't like what you are doing here. It is about time you did it in a different way," isn't it?

Cllr Reed: But we were working with them to try and identify the different way that it could be done, so they didn't need to challenge us. They wanted us to work with them and we did, and I think that is the better and more mature relationship between a local authority and the people that it is serving. We haven't yet had community rights to challenge, but one of the problems I envisage with it is there are still things we need to provide—like primary school places, for instance—where there is a growing under-supply, under-provision of that, and we have a responsibility to provide it. With the capital funding reductions, the only way we can do that is by selling off existing assets; the council earns in order to get the receipt and invest it in the new school. Under the community right to challenge, that can create a moratorium on sale of a considerable period of time that could mean that we then can't provide the primary school places that are required.

Q76 Bob Blackman: Finally from me, apart from money, what is the one thing the Government could do to assist you in promoting your type of ethos? Ian, starting with you.

Cllr Parry: I think there are probably some technical things around Transfer of Undertakings (Protection of Employment) (TUPE) and things like that that might assist. I think generally speaking it is having an understanding that there are some complexities around

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this and it is not just about fine words and optimism and that in taking services out into co-operative or mutual type ventures takes time, it takes some thought and it is not something that is going to happen overnight, but it is on everyone's agenda because it is the only game in town in many respects. We have to reshape these services and engaging with communities and finding different models, and finding that there are organisations out there that are well-equipped to do it. If you can just improve the capability and capacity of those organisations, they are well-equipped to do it and can possibly offer a better deal than we can. They can offer also some additionality, some flexibility, some ability to innovate that we sometimes can't, because we are local government and we are bit more constrained. So I wouldn't ask for anything else, to be honest. I think we just need to get on with it.

Bob Blackman: Okay. Steve?

Cllr Reed: Yes, two. One is at the local level we are finding all of our local partners are collaborating and co-operating together very well on this agenda, so we have the police engaged, the further education college, the council itself, voluntary and community sector. The bits that are really difficult to get engaged is

national Government Departments, where they have either assets or are providing services in the locality. It would be great if national Government would join in with this as well.

The other point my colleague has just whispered in my ear is pensions. That is not going to be unique to this situation—is it?—but one of the things that most worries council employees, if they are going to be moved into a mutual, is what is going to happen to their pension, and I understand entirely that fear.

Bob Blackman: Okay. Barbara?

Cllr Brownridge: I don't think I can think of anything, I am afraid.

Q77 Bob Blackman: Okay, fine. So you have no demands on Government?

Cllr Brownridge: Well, I am sure I have, but not in respect of this, no.

Chair: Thank you all three very much for coming and sharing your experiences and your aspirations with us today. It has been very interesting. Thank you all very much.

Monday 21 May 2012

Members present:

Mr Clive Betts (Chair)

Heidi Alexander
Bob Blackman
Simon Danczuk
Bill Esterson

George Hollingbery
James Morris
Mark Pawsey

Examination of Witnesses

Witnesses: **Professor Tony Bovaird**, Professor of Public Management and Policy, Institute of Local Government Studies, University of Birmingham, **Catherine Staite**, Director, Institute of Local Government Studies, University of Birmingham, and **Mark Bramah**, Assistant Chief Executive, Association for Public Service Excellence, gave evidence.

Q78 Chair: I welcome you to the second evidence session of our inquiry into the Co-operative council. Thank you very much for the evidence you have provided us with so far, and for coming this afternoon. Could I ask you to identify yourselves and the organisation you represent for the sake of our records?

Professor Bovaird: Tony Bovaird, Institute of Local Government Studies, University of Birmingham.

Catherine Staite: Catherine Staite, Institute of Local Government Studies, University of Birmingham.

Mark Bramah: I'm Mark Bramah. I'm the Assistant Chief Executive for the Association for Public Service Excellence, a local government association.

Q79 Chair: Thank you very much. To begin with, I would like to get a grip on what is a co-operative approach. What is a co-operative council, and how does that change or affect service delivery?

Catherine Staite: A co-operative council is one that looks for as many opportunities as possible to work with the people they serve, and to draw them in through engagement, supporting the making of choices and prioritisation, but also through co-production in helping deliver outcomes for themselves and for other people in the community.

Mark Bramah: It is slightly unclear what the co-operative council is; there are different versions of it. There is clearly a vision of divesting services to co-operatives and mutuals, which is one version of an approach to a co-operative council. There is another, which a number of authorities have adopted, which is more of a values-based approach, much more about the culture of the organisation. There are quite a lot of nuances within that.

Professor Bovaird: I would simply add that there are two fundamental strands here—one is a council that co-operates with partners in the institutional world: other organisations in the public sector, private sector and third sector. That is an inter-organisational business where they simply try to make the most of each other's organisational resources and assets. The other strand is working closely with service users and citizens to integrate what the council does with what people want, and to make people part of the service planning and delivery process.

Q80 Chair: We are all struggling a bit: people use the same word and mean different things by it, and

mean the same thing with different words, which is difficult for us to grasp. At one level, we seem to be talking about something little more than asking service users what they want, participation and user involvement, which are things that have been around for some time. At the other end, we are talking about more active involvement in the production of services, and maybe some things in between. Does the co-operative model rely on having co-production, which was used to describe Lambeth, or the use of co-operatives and mutuals? Or can you call yourself a co-operative council without having that sort of involvement?

Catherine Staite: It is unfortunate that the language is used so differently, because commissioning services from co-operatives and mutuals is something that councils might choose to do as part of their work. Certainly co-operatives and mutuals that have their roots in the community may be useful conduits for engaging with people. However, being a co-operative council in the sense of Lambeth and to some extent Southwark, which has some good practical examples of how they have worked on co-production, is more about the values of the authority. There is a more permeable division between what is delivered on behalf of the council, what is delivered through partners and what is delivered by communities. That flexibility is one of the characteristics that I would expect to see in a co-operative council.

Mark Bramah: There are two distinct strands, although I agree with you, Chair, that there is some confusion about what we mean by a co-operative council. If you look at West Sussex County Council, their view is based on the Open Public Services White Paper and about the role of local authorities as commissioners of services. Local authorities should commission and empower other organisations to deliver services.

I know you took evidence from Oldham Council and some of the others that are part of the Co-operative Councils Network. My understanding is that some of their approach is much more about looking at the international principles of co-operation and how that can be built within the organisational structure and culture of the local authority itself. Some of these ideas are developing and are not fully formed yet; there are different approaches. Lambeth is a distinctly

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different approach from York, which is part of the Co-operative Councils Network.

Professor Bovaird: Our argument in the evidence that we have given to you in writing, is that a key aspect of the co-operative council is user and community co-production with the council, which means using each other's resources to maximum effect.¹ We argue that that is something we have never really tried to do before. In doing that we are going to need social enterprises, because as an intermediary, they play an invaluable role; communities cannot, by themselves, simply grab hold of the resources in the public sector and make best use of them. The public sector, we argue, is not good at finding out what is in the community and making best use of it. So that intermediary and those social enterprises are fundamental to a co-producing world.

That is just one aspect of the co-operative council. We think it is close to the Lambeth model, because their model might better be called the co-production council, but it is such a mouthful that, quite wisely, they have not used that particular label. However, it is very close to what is at the heart of much of what they do. As you say, there are many other meanings of the word co-operative.

Q81 George Hollingbery: I am just getting my head around this. I missed the last evidence session, I do apologise. The new production methods for local planning and the input of inter-neighbourhood planning, is that co-production? Is that a mutual? Is that a co-operative? Where does that sit? It seems to me that as a national Government impetus that is pretty much what you are talking about.

Catherine Staite: There are two things there. My colleagues may disagree with me, but I think some of that is around engagement. It is giving people different opportunities to influence decisions about what happens in their area. However, as soon as people make a contribution, for example, to developing a neighbourhood plan, you are moving into co-production. Think of it as part of a continuum of activity, from a local authority that is giving people information and making it easy for them to access services, through to the other end of the spectrum, where power and resources are delegated to people to run services on behalf of themselves and their local community. Across that spectrum of activity, you will see a lot of different depths of engagement. What is expected of the people who are engaged with is different, whether it is simply to nod things through, or whether they have really got to put some effort in on their own part to achieve something.

Mark Bramah: You do not need to be a co-operative council to be engaged in co-production, though. A lot of the work we do is in waste management; any authority that is entering into any initiative on waste minimisation or recycling has to engage with citizens and service users in terms of co-production, otherwise they could not deliver those services. You don't have to be a co-operative council to be engaged with that; lots of local authorities have historically been involved with co-producing services with end users.

Q82 Simon Danczuk: You have some local authorities describing themselves as co-operative councils. Do you get a sense that the Rochdale pioneers could be spinning in their graves in terms of the fact that their concept has been hijacked for branding purposes? How fast do you think they would be spinning?

Professor Bovaird: I think they would buy this.

Q83 Simon Danczuk: They would buy this?

Professor Bovaird: They would buy this. This looks like local people having a real say, not just in what should be done, but how it should be done, and being invited to be part of what should be done. That is something that we have thought of for 150 years as an interesting theory and we are only just realising it. It is happening, and it could happen more.

Mark Bramah: I fundamentally disagree with that view.

Q84 Simon Danczuk: You think they are spinning?

Mark Bramah: I am from Rochdale, so I do know a bit about the origins of the co-operative pioneers. It was a consumer co-operative with the Rochdale pioneers; they tried to get into manufacturing, but that model did not work as well. It predates modern public services. It predates an awful lot of the development of modern public services. It was very much in the private sector; the co-operative movement was built around that. There are some distinctions. There are some similarities, but I do not think that the Rochdale co-operative pioneers would necessarily see the development of the kind of principles they adopted in the 1840s as being similar to the needs of modern public services in the 21st century.

Catherine Staite: If you think about the co-operative movement in the context of things like the Workers' Educational Association, the idea of self-improvement, the idea that working people who had perhaps not had much education were able to make a contribution, some of that thinking is at the heart of co-production. It says that people have something to offer. They need not be defined by their needs; they can be just as easily defined by their capacities and the assets they bring. That is why there is a link back to some of the thinking that underpinned the co-operative movement in the first place.

Q85 Simon Danczuk: I also live in Rochdale, and nobody is talking about the council being co-operative, I can assure you of that, and it is the same party. What are the notable examples then, Tony, of mutualism getting a grasp within these key local authorities?

Professor Bovaird: If you are talking about mutualism, you are talking about a particular organisational form of service delivery, not what we were talking about with co-production. It is an entirely different direction. In terms of co-production done by small groups of staff with service users, I think the most exciting examples have been peer group support. There are some in Oldham, which are now nationally famous, for example, the KeyRing support for people with mental health problems: small groups of staff work typically with 10 mental health service users

¹ See Ev 89

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who help all the other people in their ring in a range of daily living activities. KeyRing is not a mutual; it is a third sector organisation set up nationally with local branches that run these sorts of peer group support networks, bringing professional staff together with ordinary people who themselves have a condition that is such that they can give enormous help and support to others like themselves.

Whether you want to say that in future most of our mental health services should spin out into co-ops and mutuals, which is something which the health service has considered, that is an organisational question. There is very little of it around, and the examples that have been written up, particularly by the National Audit Office in their reports, are relatively thin in number. If we are honest, there is not an awful lot of evidence behind what is there. Their conclusion is: not yet worth getting over-excited about, but worth watching.

Q86 Simon Danczuk: So very few notable examples of this stuff going on, on the ground—real stuff you can see?

Professor Bovaird: It is relatively thin for the moment. On the other hand, it is often said that people with long-term health conditions like diabetes or gastroenteritis, which are potentially life-threatening conditions and last 20 to 40 years if you look after them properly, spend something like 5,800 hours a year looking after their condition, and they see a public service professional for about five hours a year on average. The amount of co-production there seems a bit thin. The extent to which this is a genuine use, by each other, of each other's assets and resources to maximise the outcomes seems thin. I would want to say that the potential for doing things differently and getting the staff to work more carefully with citizens and service users seems exciting, but it is not happening.

Mark Bramah: I will offer some examples, because there are some. There is a paucity of evidence. We produced a report called 'Proof of delivery' through a knowledge transfer partnership with De Montfort University, which looked at the evidence of the success of co-operatives and mutuals in the public sector. We looked at a lot of research evidence, and we found a lot of evidence about how you set these organisations up, but not a lot about the outcomes that resulted from them. But there is some good work about.

Rochdale Boroughwide Housing has been set up as a form of mutual. The jury is still out on that in the sense that it is a stock transfer, it is 12 months before the mutual governance structures come into play, and there are issues about engagement of staff and tenants, but there are other good examples. I would refer particularly to Lancaster City Council, where they have a service within their waste management called Furniture Matters. It is a local co-operative; it works with the waste management service in collaboration with the public sector. It is a community-based co-operative that recycles white goods and furniture for very deprived communities. It provides training and employment opportunities within those communities,

and works very well in collaboration with the public sector.

Could I refer to one other piece of work that might be worth looking at? In 2006, the Scottish Executive, as it was before it became the Scottish Government, did a piece of work called 'Better value: Purchasing public services from the social economy'.² While as an organisation we disagreed with the conclusions of that report, there were a number of very good case studies of where the social economy—co-operatives, mutuals—could work in collaboration with the public sector. It tended to be niche service provision; recycling is a good example, or out of hours driving contracts for the NHS. There are some good examples in the public sector where it has been used in the past.

Q87 James Morris: Can I ask one question about what you were saying about mental health services? If there are some examples of this co-production, where service users are engaged in design of services, is the outcome improved if those service users then feel that they have a direct stake—as in, there is an organisational structure called a co-operative in which they have some kind of mutualised stake, to use all the terms that we are throwing around here? Does that improve the outcome?

Professor Bovaird: We did a survey of five countries in 2008, including the UK, France, Germany, Denmark and the Czech Republic. We asked 1,000 citizens in each country, "How much co-production do you do?" of certain types, "and what drives it? Why do you do it?" We found that one driver was that if people are dissatisfied with public services, they are more likely to start doing more things for themselves to make things better.

Coincidentally, or at least apparently paradoxically, people were more likely to get involved if they believed they could really make a difference. Those two things were not well associated with each other. A lot of people who started to get involved did not believe they could make a difference, but in being involved for quite a long time, came to believe they could make a difference. So you get all three things moving in the same direction at some stage.

What did not come out at all from that survey—and perhaps it was because we did not set it up to do this—was people caring too much about the organisational form in which they worked, either as a community group or with a set of officers from the local health authority.

Q88 James Morris: Isn't organisational form irrelevant?

Professor Bovaird: It did not come up in our discussions as something that citizens care a great deal about. It may be that once people get more used to working with co-ops and mutuals, they form an attachment to them. We have not seen much evidence that people know or care much about that for the moment.

Catherine Staite: I used to run a large service-providing Mind organisation, and we tried very much to be user led in the sense that the committee was predominantly users, we had users

² www.socialfirms.org.uk

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running some of the services. I did that for about six years. The two things that were most striking were that people came in with low self esteem and little sense of efficacy, and went out, often into paid employment, with a much stronger sense of being able to survive; and they were also given a very strong sense that their experiences were very, very important to other people and to learning.

Again, you could say that was a traditional voluntary sector organisation, but, for those people, the organisational structure did not make the difference; it was those opportunities that were provided by that way of working that made the difference.

Q89 Heidi Alexander: Can I just ask Catherine and Tony about some of the work you are doing with Walsall? I understand that it relates to work with social care users, and understanding what their capabilities are: what they can as opposed to what they cannot do. Can you tell me how you think that fits with a co-operative approach?

Professor Bovaird: We believe that the work in Walsall fits into a national picture where similar experiments are happening elsewhere. The Walsall one is crystallising it most clearly; it is perhaps most advanced. Where it fits into your inquiry is this: if it turns out that public services as we construct them currently—whether they are run by in-house providers, private firms, third sector organisations, national charities—do not understand how to mobilise people's efforts and enthusiasm to make the most of what they could do for themselves and for others, we could be missing out on an enormous resource, and hugely underselling the outcomes that could be achieved.

Let me give you an example that we had in one of our workshops. One of the team managers said she had been talking to a member of staff who had spent an hour doing a needs assessment with a woman in Walsall who was just extraordinary. She was very musical, she was singing, there were kids coming in and out of the house playing musical instruments—piano, violin—which were just sitting around. She was informally teaching them, getting them to sing and talk together. It was an extraordinarily happy hour. Then the team manager read the report that came out of the needs assessment: this woman was utterly miserable in every dimension; you could not think of things that were not wrong with her, and that was what the local authority had to put right. It did not mention for a moment that she was in herself happy and an enormous asset to the people around her. She was underutilised; she wanted to do more, but it is hard these days to encourage kids to come into your house. You know what that involves in Britain in 2012. The team manager realised we are wasting our time: we are going to give her some services, and she needs them, but we are absolutely missing out on something that could change part of the street. Why isn't there a box for that?

Walsall is trying to find a box to ask and to probe: who is doing things that are interesting? How can that be encouraged? Under what circumstances are people prepared to do that? Of course, many people won't want to, or can't. But who does want to? Who can?

After two hours, the conversation switched: people in the room began to say, "What would happen if we discovered that a lot of our service users can do interesting things for themselves and others and want to, and are now thinking that we are interested and we will be offering them something to do? Oh my God; how could we cope with a world in which people could be enormously interested in each other, have friends, more contact? That would put an enormous amount of pressure on our services." The atmosphere changed then, and the second part of our report was about how you could match up people who can do stuff with people who need stuff.

Q90 Heidi Alexander: Two questions follow on from what you've just said. I think you said, Tony, that some people won't want to get actively involved, and won't be able to have some of those other things to offer. To what extent do you think that people do really want to be those active participants as opposed to just getting a good service?

Professor Bovaird: Good news/bad news, Heidi. The Danes do not want to. Our survey in Denmark showed the majority of people there take the view, "We pay for this stuff, let them get on and give it to us." We discovered in the UK survey that that is much less the case. In Walsall, we have discovered that a lot of people feel very frustrated that the things they already do are not appreciated, and the skills and the expertise they already have are not noticed by people who come in and talk to them, and are not in any way extended and made use of. That is not to say everybody; of course, there are people who won't. We say in principle we must recognise there may be people who can't, and we must protect that. Every time I have said that, and tried to give an example of a person who hasn't got anything to contribute, we have been absolutely hammered by somebody in the room who says, "Funny you should mention that, but I know somebody just like that who is absolutely beautiful to be with".

Q91 Heidi Alexander: Do you think harnessing those talents and capabilities costs more money?

Catherine Staite: It is more about seeing people through a different lens. It is about seeing people as whole people who have a lot of capacities and things to offer, rather than perceiving them as needs, problems and issues to be resolved. A good example is the Southwark Circle, which is a co-operative group of older people who provide support and practical assistance for each other. Another is the work that Swindon has done. Their life projects have been about—it is difficult to know what the right term is; is it troubled families? I am not sure what the right expression is currently—but families who have been given multiple interventions by a wide range of agencies, and handing back to them some control and responsibility to run their lives and their children. Those have been very successful.

If we start with the people where it looks as though it would make the most difference, to put it crudely, Swindon has saved a lot of money. Coventry has done work with parents of children with special educational needs, looked again at their transport needs, and

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moved them out of a council-based service into giving the parents the money to run their children to school in their own cars. They have saved about £250,000 doing that. If you start with the people who are willing, there are savings to be made and benefits for the families or individuals concerned. Then you can move to people for whom it is going to take more effort and more engagement to get them to the point where they are ready or able to become involved.

Q92 James Morris: Can I talk a bit about social enterprises? Take an area I represent, in the West Midlands. I go across two local authority boundaries, Dudley and Sandwell. There are quite a lot of good social enterprises in both those local authority areas, but it is quite a fragmented picture. To what extent can social enterprises play a role in helping local authorities with some of the co-production you are talking about?

Professor Bovaird: It is extremely varied. Some of them do it naturally, but I am sure Mark will step in and say there are some people in local government and the health service who do this naturally. There are some professionals who know how to make use of the resources of users, carers, other people—neighbours and friends.

The argument in our paper is that that knowledge and skill tends to be more in social enterprises, but not all of them. Many of them are paternalist. Many of them are narrow-minded in the way they do things. Many of them are essentially old spinouts from people who used to work in social care or the health sector, and want to do it their way at last. Just like any small firm, they want to do it their way: they love it, and they are not exactly listening to anybody, least of all service users or carers.

We found in the Walsall work in particular that the groups of people most likely enthusiastically to say, “I could probe, tease, bring out what people would like to do and can do, and make use of it readily”, the people who latch on to that fastest, tend to be people working in housing associations, some of the local community organisations, some of the small care organisations, which have got a passionate view that we should be user led. Some of them: I do not believe that there is any categorical statement you can sensibly make in this field.

Catherine Staite: Intrinsically, I don’t think you can say that one sort of organisational model is better than another. I would look at a much broader range of criteria about effectiveness and, dare I say, value for money as well. There is a risk of getting hung up on organisational structures, and one of the problems about developing new organisational structures and approaches is that they absorb a huge amount of energy to get them up and running.

Before I joined INLOGOV, I was a director with a not-for-profit social enterprise, the Office for Public Management. The challenge there is about holding the ring between the needs and demands of employees as owners. For example, to put it crudely, and this is no disrespect to them, if you were to say the interests of employees would be to work less hard and to be paid more, the interests of the company would be that they worked harder and were paid less. You have to have

some mature relationships in an organisation to handle those inherent conflicts in a mutual or social enterprise like that. That, in itself, absorbs a lot of energy and it can really slow down decision-making.

If I was a commissioner of services, I would be interested to see what social enterprises had to offer in terms of what was special, different or added value, but I would not automatically say, “Social enterprise good; traditional public service bad”, because the answer is much more complicated than that.

Mark Bramah: Obviously, there is some different terminology. We talked about co-operatives and mutuals; social enterprise is a different model, although there are some similarities. There are some very large social enterprises, and there are some very small local bodies. From APSE’s point of view, one of the problems about engaging more effectively with social enterprises has been that sometimes the rules around procurement can become extremely complicated. If you are a large national organisation, you have the capacity and skills to be able to compete for larger contracts; it doesn’t seem to be the case for a number of smaller local social enterprises. There is clearly a role for social enterprises working in collaboration with public organisations or local authorities, and some good examples of that.

Q93 James Morris: My experience of looking at the local government landscape for several years, as well as working with local organisations, is that there is still quite a profound conservatism within local authority commissioning of social enterprises particularly. Do you think local authorities have the skillset and the aptitude to maximise the potential of social enterprises to achieve these slightly nebulous co-production ideals that we are talking about?

Catherine Staite: In some places, yes; in others, no. We run in-house executive development programmes; we run master’s courses covering issues around strategic commissioning. We often find there are pockets of excellence, but, having the whole organisation geared up to be an intelligent or strategic commissioner, you will find that there are champions and leading thinkers, but often the budgets are still in traditional service silos. That makes it quite hard to commission services focused on the holistic needs of people, because, if you look at the services that are being commissioned for individuals, the housing department has the same customers as adult social care or as the children’s directorate.

Currently, we are in a transition phase where there are some leading edge people who are really getting it and doing well; to their credit, they are sharing their expertise with other local authorities. There are other people who are just on the starting blocks. With the graph of doom of rising demand and reducing resources, doing things in the old way is not going to work anymore; the future won’t work like that.

Mark Bramah: An example of an authority that has approached this in a slightly different way is West Lindsey District Council. They have a strategic approach as an authority; they see themselves as an entrepreneurial council, but with an approach to social enterprise. They are trying to look at how they can encourage the engagement and involvement of social

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enterprises in terms of the work the authority does, and that is a unique approach that we have seen. The chief executive and the council leader there have adopted a different approach.

Q94 James Morris: You mentioned certain services you thought were more appropriate to be delivered by social enterprise. Is there anything that couldn't be delivered by social enterprise?

Mark Bramah: Again, it depends. There are clearly areas that are not appropriate in terms of public service delivery to be delivered by social enterprise, co-operatives or mutuals. It is a case of horses for courses. It will depend on individual local authorities, what individual local authorities see as core capacity and whether they can effectively look to develop services in partnership with social enterprises.

Professor Bovaird: That is a tough question, therefore you would expect me to evade it in some way, and here is the way I intend to evade it. I don't think there are services as such that definitely cannot be provided by one sector or the other; we have even learned that regulation can partly be something done by private sector firms, as long as the regulation of the regulators is set up properly. Services are not just single services. They need some planning, co-planning sometimes. They need some design, sometimes co-design. They need some financing, sometimes co-financing. They need some management, sometimes co-management. They need some delivery; sometimes co-delivery. They need some monitoring and evaluation; sometimes co-monitoring and evaluation.

The service as a whole needs all those things; bits of them can sensibly be done with social enterprises, users and members of the community. The whole service? Hey, that is a big ask. But bits of it? Why not?

Q95 Mark Pawsey: Can I follow up on that point? Mr Bramah, you just said that some services are not appropriately delivered by co-operatives and mutuals, and we have just pushed you a bit on what services. Services I have heard about so far in the evidence are mental health, transport, and waste management. Why are some services appropriately delivered by co-ops and mutuals, and why are some not? What are the examples of what is not appropriately delivered by co-ops and mutuals?

Mark Bramah: I refer back to the example I gave of Lancaster City Council. They had a bulky household waste collection; I know it is waste, but it is a good example of how it works in practice. They realised from customer satisfaction surveys and the complaints they received from the public, that they were not very good at the bulky household waste service. So they decided to look at a way of delivering that service differently. The authority itself remains the waste collection authority; it provides the core service for the authority in terms of waste collection, but it has decided that a better approach to the bulky household waste collection service is to work more co-operatively with a community-based organisation—in that case Furniture Matters, a co-operative.

There are areas where social enterprise, co-operatives and mutuals are better able to provide some services,

but that does not necessarily mean that they are better able to provide core services like, for instance in that case, a waste collection service. It is a matter of what works best in individual authorities.

Q96 Mark Pawsey: What excludes the service you have just referred to?

Professor Bovaird: I will just come in and say that no single principle seems to me to work in this field all the time, but one principle is pretty strong, and that is: where you need big economies of scale, you are going to have big organisations, and for them to be co-ops and mutuals is going to be really tough. Where you need responsiveness to the needs of individuals or a local area, you don't need scale; you need local, you need personal, and you need in-touch. You need an organisation that is flexible and adaptive. There, co-ops and mutuals might well be a very nice way of organising the people who know and care what should be done for those people in that area.

It seems to me likely that you are going to have a greater success rate there. Where you need big economies of scale I think one must be a little sceptical. It could work. Capita was essentially a mutual; let's remember that. It was spun out of Cipfa originally, and it provided scale, but only 25 years later. Those early years are going to be tough if you are looking for scale through co-ops and mutuals.

Q97 Mark Pawsey: The smaller scale services. I want to ask you about the rural and urban bit. You referred to West Lindsey. I don't know where that is, but I am guessing that is rural.

Catherine Staite: It is Lincolnshire.

Q98 Mark Pawsey: But every other local authority that we have referred to is metropolitan: Walsall, Coventry, Oldham, Rochdale, Lambeth. Why are all the names we are hearing urban? Is that because they have a particular philosophy that sits more neatly with what we are talking about, or is it because smaller, more tightly knit communities are better able to respond to this method of service delivery?

Professor Bovaird: Can I throw something into the pot here? I think in rural areas you will often be told the reason is quite simple: "We have so few public services. We have to do most things for ourselves." This is not co-production; this is self-help and self-organising. Many of our rural communities fundamentally produce outcomes in all the areas that we care about in the public sector largely through their own activities: self-help and self-organising. They would like some public services to co-produce more with them; that is a story I hear quite a lot.

Q99 Mark Pawsey: Are they not happy looking after themselves as they are? Your evidence is that they are happy, because presumably if they were not happy they would change the political colour of the authority delivering those services, wouldn't they?

Professor Bovaird: I love optimism, and you have entered a note of extraordinary optimism, and I think we should celebrate that.

Catherine Staite: I think in rural areas people have quite realistic expectations of what can be delivered.

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I know some work was done recently in Shropshire around community safety and some arts and leisure services. People were not expecting that operas would be available in every village, but they were thinking that collectively they could do some things in different villages about bringing arts in.

I would not want to characterise country people as being self-reliant and turning their nose up at public services. However, there is definitely a tradition of doing more, because you cannot get the economies of scale there, and people need to do more for themselves.

Mark Bramah: There is another element in terms of the capacity of different communities and localities. There are examples of authorities that are well-parished, that have a long tradition of that kind of empowerment of localities, whereas in some urban areas you do not have that tradition; it is not the same. An example would be somewhere like Braintree in Essex, which has got very strong parish local councils; they have had a tradition over many years of the localities having a strong say in what happens within their communities.

Q100 Mark Pawsey: What determines this route of service delivery or not depends a little bit on the structure of the community that exists in the first place?

Catherine Staite: Yes, but one of the other things I would go back to is to think about commissioning. If you were thinking about who you were going to commission what from, the bigger the service, the more rigorous your risk assessment would be of it. The track record of the organisation would influence how you let those contracts, and the ability of the local authority as the client to manage those risks would depend a lot on their own expertise. It could be that some commissioners in local authorities now are taking some measured risks with smaller services, and they will see how the market develops and how things go. They would be much less willing to take that with larger services, where they may already have legacy contracts that have some years to run anyway, which are therefore not up for grabs in terms of going for social enterprises.

Q101 Mark Pawsey: Can we just talk about the cost of delivering the services by using co-operatives and mutuals? Again, with your Coventry evidence, there is transport for social services. You spoke about a £250,000 a year saving, but some of the evidence we were getting, particularly last week, was that this is not a way of saving money; this is a different way of service delivery, and those authorities who are looking at this route as a method of saving money are making a big mistake. Is that right?

Catherine Staite: The Coventry example is around co-production, with parents providing the service for their own children, rather than having it provided for them by the council. It was cheaper to give the parents the money for petrol than it was to send taxis to collect their disabled children and take them to school. So that is a slightly different thing. There is not any evidence as far as I know, whatever sort of alternative model of service delivery you go for, that it is

necessarily going to deliver you savings. Where you can lever in a high degree of co-production, there is an argument to say that you could combine some savings with some service improvements, and that is what a lot of social enterprises are offering.

Q102 Mark Pawsey: Is that a short-term higher cost for a longer-term gain, or is it spread evenly across?

Professor Bovaird: A lot of co-production costs money. That relates to a question we were asked earlier: if you take the Stockport website for adult social care, it was not well used. They spent £70,000 redesigning it from the beginning, with the service users, throwing out large parts of information that the staff thought users might like, and putting in information that users did want—a logic that was easy to follow. £70,000 is quite a lot of money to take out of actual service delivery, but they have reckoned since then they are saving something like £300,000 per year, because there is a huge increase in the understanding of what is available locally. They do not get asked so many tomfool questions by telephone; they do not have so many people coming in abortively asking for service who are never going to get it or cannot afford it, because now they know exactly what the offer is. You have got to spend some in order to get the benefits of that kind of co-production. That is one of the lessons we have seen throughout the country: that co-production is not something you get immediately for free; it needs some investment. The question is what the investment business case looks like; what is the payoff?

Mark Bramah: It is worth mentioning that there obviously is a view that the creation of co-operatives and mutuals in the public sector is a way of saving the public sector money in terms of expenditure. I don't think there is any evidence to prove that, but obviously some authorities are approaching it on the basis that this is a way of potentially delivering some more efficient services.

Q103 Chair: On scale, I don't know whether you have picked up evidence of this so far, but with the personalisation of budgets for social care, you often get ex-employees of local authorities coming together to set up those small mutuals. They can offer very flexible arrangements, and often lower cost arrangements, to people who have now got personal budgets. Sometimes they were the people working for the local authority that used to provide services to these people. They know them and they have got that personal relationship. Have you got any evidence that that sort of thing is starting to happen?

Professor Bovaird: I know that it is happening, but I have not seen a survey that says how much it is happening. One thing that is happening is that there is enormous change in that market place. At first, people who had individual budgets were in a bad way, because they had no advice on how to use them, and there were not that many things to buy with them. It has changed enormously, and now the supply side is partly full of ex-employees of health and social care who are saying to themselves, "We can make really interesting offers to groups of users. One user at a time isn't so interesting. We actually need to get

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together so that we have a portfolio of services we can offer as a group, and we need a cluster of users who will buy it from us, because otherwise we are not going to have a decent business case". There is a lot of churn in this market.

Mark Bramah: I have heard examples of where this is being considered in areas like domiciliary care where ex-employees think they can come together and offer that type of approach.

Q104 George Hollingbery: I think my problem so far is that I am hearing very little in the way of hard evidence on any of these issues. I have got a particular problem with co-production on the basis that it does seem to me to be good practice; it just seems to be what good councils already do. Perhaps I am biased by the fact I have huge numbers of parishes, but plainly that is a form co-production. There are lots of parishes that already produce services for district councils, and so on. I am really puzzled by what this is, other than good practice amongst some of the best councils. It may be there are lots of other councils there that cannot do it.

I am more interested in talking about the mutuals and co-operatives, about which, frankly, we have heard very little. The question that I wanted to ask was about the process of creating a mutual, the process of creating a co-operative, the difficulties, how you need to warn the employees, and what structures you need to set up. The first thing I have got to ask is: do you have any concrete examples out there of anything that is happening at scale? Tiny little self-help groups: we have all seen those out there in the community. Are there any major scale examples of this going on across the country?

Mark Bramah: There are examples of it. I referred previously to West Sussex County Council, which has a policy of approach to staff mutuals at the present time, and they are actively considering the setting up of staff-owned mutuals. They may be relatively small bits of the organisation, but they actively pursued that. We looked at the evidence in the public sector from across the UK and internationally. We found very, very little evidence in practice of successful public sector mutuals.

Of those that did exist, there were a number of factors that seemed to drive their success. One was some form of contract or asset lock-in; there needed to be something there that meant you could not divert those organisations away from what they were originally set up to do. The second was stakeholder buy-in: I think there is a view that you can almost force staff down this particular route, but it needs to have effective engagement, not just of the staff, but of various stakeholders, including service users. The third factor that you need to look at is around things like public sector advocacy. This is not about diverting these organisations away from the public sector; they still need support and nurturing from the public sector. They still need a strong role from the local authority to make them succeed.

Q105 George Hollingbery: Sorry, I am lost here. Fine, so a mutualised public sector organisation: what is that other than outsourcing by a different name?

Why should a third-party organisation then not challenge for it? I am really stuck with this.

Mark Bramah: Well, there is no reason why. In fact, inevitably, the formation of public sector mutuals and co-operatives will lead to competition, and other providers, under EU procurement, should be given the opportunity to bid for those contracts.

Q106 George Hollingbery: So in other words it is just outsourcing by another name.

Mark Bramah: I think we view that as being essentially what it will come down to. They are private organisations; if you set up a staff mutual it is a private company, essentially.

Professor Bovaird: It is outsourcing by another name, but done differently, because it is believed that the people you are outsourcing to have a special expertise and a special concern. That is sort of like an interestingly different kind of outsourcing, and we should respect it as an interesting possibility.

I think it is wrong to say we should ask: what is the evidence that this works? We are in the middle of cutting 25% of local government expenditure in four years. That is going to produce an unprecedented situation in every council of this country. Asking for evidence as to how we will cope with a 25% cut and which mechanisms which be interesting during a 25% cut in spend is premature, I'm afraid. We are going to have that evidence shortly, and in the meantime we are going to have to experiment greatly with the way in which we cope with producing outcomes at lower spend. This is one of the mechanisms that you should take seriously.

Q107 George Hollingbery: The terms of this inquiry are to talk about co-operatives and mutuals. I don't really care in this particular context about the spending envelope, because that is not the brief of the Committee. We all recognise that is incredibly difficult, and there has been quite a bit of evidence produced in the last few weeks that it is leading to innovative approaches in many councils that are not only better value, but producing better outcomes. At the moment, let's stick that on one side. We are supposed to be talking about this wonderful world of co-operatives and mutuals, and I am damned if I can see the evidence of any of it working here at all. I don't understand the difference between that and outsourcing. If I said to you that housing departments in the local council are being pushed out into a housing association or into an arm's length management organisation, tell me how that is different? You have got the same personnel, sitting in the same chairs, doing the same job, with a different control mechanism. I do not understand what we are doing here.

Mark Bramah: We already have examples of where this has happened in the public sector in terms of local authority leisure trusts, through a form of industrial provident societies. They are a form of community base; they are one form of a co-operative approach. There is evidence going back to earlier days; the late lamented Audit Commission produced a paper in 1990 on management buyouts, a paper called 'Public Interest or Private Gain?' There were a lot of

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employee-owned and management buyouts set up in the wake of the 1988 Local Government Act. The evidence produced there showed that 59% of those organisations ended up being subject to a trade sale; another 19% ended up being floated; 11% of them went into receivership; and only about 11% of those organisations ever continued in the original form.

Q108 George Hollingbery: The reasonable conclusion is that it is not a great idea, is it?

Professor Bovaird: I think it is premature to suggest that. You are absolutely right that the evidence is very thin, but the point I would make is that we now do need to experiment to be innovative. This particular form of outsourcing—because you are absolutely right, it is a form of outsourcing—may be able to call upon levels of expertise and commitment of staff not available in other forms of outsourcing. That could be an interesting thing to do over these next four years.

Q109 George Hollingbery: I absolutely take the point that you make, but I am just not sure I believe it. It does not seem to me to be materially different from what is available now. It is another mechanism by which you can stick something on one side, and you might get the benefits of an outwith management organisation and a bit more control over your destiny. If you can make a profit out of it—we can talk about Kinetic if you like—I can really see people putting a bit of effort in, but at the moment I just do not get this at all. Co-production I absolutely do get—it is a wonderful thing—but I think most people who are running a good council are doing it anyway.

Professor Bovaird: I think from our side we are agreed that if co-ops and mutuals are to succeed it will take quite a long time, it will take quite a lot of money, it will be subject to quite a large number of failures, it will need to be a learning process, and, as an instant solution for the next few years, it does not seem a high priority.

Q110 George Hollingbery: That I accept.

Mark Bramah: Maybe in terms of niche provision there may be areas where it will work.

Q111 Chair: In passing, this is just outside the local authority area, but have you done any work across the GP co-operative in Sheffield to do with out-of-hours services?

Catherine Staite: Yes, I have heard something about it.

Q112 Chair: Have you done any work on that?

Catherine Staite: No. I think the GP Commissioning Consortia, there are some—

Chair: No, this is a GP co-operative set up some years ago to produce out-of-hours services when the private sector firm was getting so many complaints. Basically, the complaints from constituents had gone down like that, since the GPs formed their own co-operative. It is an innovation that probably has worked. Anyway, I had to get that point in, I suppose.

Q113 Bob Blackman: So far we have got some possible benefits, and maybe people have not really

done a lot of this type of work. I would now like to explore what the barriers are to people doing this in the first place. Could each of you give me what you think the biggest barrier is to forming either a co-operative or a mutual?

Mark Bramah: A clear one is procurement. Even under the Community Right to Challenge under the Localism Act, it is a right to express an interest in forming one of these organisations; it is not a right to undertake the service. We have already got experience in Gloucestershire in the NHS, where they were seeking to set up a co-operative. It was challenged through judicial review, and eventually it will go out as a procurement contract under EU rules. That is a clear issue: local authorities are not in a position to give these organisations work as of right. There are others, but I will let my colleagues in, and then come back.

Catherine Staite: The one I would go for is organisational stability, because Mark's point is absolutely right: although people may form a mutual with a sense that there is a promise that they will get a big chunk of work and they will have that for a reasonable period of time, that often will not come to fruition. Meanwhile, people are setting up a different form of organisation from that that they have been used to working with; some support is available for mutuals, but maybe not enough. So they are in a position where, in order to convince possibly a risk-averse commissioner of services that they are a safe bet, they have to be able to demonstrate some sort of organisational stability and track record. If they have not got any income to do that—people are still in their old jobs and so forth—it is very difficult. The ways in which people bid for services and the timescales involved, as well as the level of expertise needed to respond to a complex procurement process, are going to be real barriers.

Professor Bovaird: It is partly an issue of the cultural change which will be needed for the staff, for the management, and also—I hesitate to say it in this room—at the political level. The change to move to this format is going to be quite radical. The management in particular is not necessarily going to welcome finding that they have to take the big risks of becoming the managers of such a spin-off. In certain responsive services, staff feel they do a very great deal of the work, but do not necessarily get a great deal of the credit, and they could possibly see that they might be financially better off if they can hive off to some degree. Those staff have not been given that kind of encouragement in the past; they have no reason to believe the local authority will look after them in the future, and five and 10 year agreements with the funder are an important package here. To get round that barrier we ought to be trying this kind of thing in-house for the next three to five years to encourage staff to have more discretion and autonomy in our local authorities—decentralisation and devolution—and learning from that the extent to which you get better outcomes when the staff are able to make quite a large part of the decision in the service.

Mark Bramah: That is kind of good practice in a sense that you would expect that with any good service.

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Q114 Bob Blackman: So addressing these barriers that you put up: Mark, procurement, is there a way round it? What can be done?

Mark Bramah: Local authorities need to adopt a positive approach to procurement. The difficulty around EU procurement is that you cannot give social enterprises, co-operatives and mutuals, contracts as of right. There may be changes proposed within the new European Procurement Directive—there is consultation currently—that might make it easier to set these organisations up, but it is going to be 2014 before that comes into force.

In the meantime, we have things like Chris White's Act about social clauses in procurement, but a lot of that is about pre-procurement; it is about your strategy and approach. When you are into a procurement exercise itself, there are limited things you can do to promote these, so there is an element of work that needs to be done before a decision is taken to procure a contract that might favour some of these types of organisations. It is very difficult in this environment.

Q115 Bob Blackman: One of the routes that might be possible is if a lot of similar services are put out by particular local authorities in co-operation, and form a joint mutual, so they can then bid for the work. Given their levels of expertise, who else could get the job might be one of the challenges. Is that a route around this problem?

Mark Bramah: Sorry, in terms of larger organisations bidding?

Q116 Bob Blackman: Clearly, there are large forms of service from each local authority that will have their own service. If they make agreements to mutualise services across several local authorities, and then invite them to bid for that service, there will not be much expertise around in competition.

Mark Bramah: It is in terms of having the scale across a number of local authorities?

Q117 Bob Blackman: Yes.

Mark Bramah: That is an interesting idea in terms of whether that would work.

Q118 Bob Blackman: It does not work if one authority does it, because there isn't the scale; but if several did, would that solve the problem?

Mark Bramah: I think experience suggests it is extraordinarily difficult to get two authorities to work collaboratively together; to get seven authorities to have a similar approach is extraordinarily difficult politically.

Q119 Bob Blackman: We live in extraordinary times. They have to suffer a 25% reduction in their spending.

Professor Bovaird: The problem with that shared service approach, and with the co-operation across authorities that Mark has mentioned, could be because senior management and politicians have never been enormously keen on losing the kind of control they have over those services. It may be that in extraordinary times groups of staff are a little more adventurous. I do think that is an extraordinarily

adventurous and ambitious approach. If it were to happen anywhere in the country, Mark, I cannot imagine anywhere better than AGMA. It does not sound the sort of thing that West Midlands councils are about to engage in.

Q120 Bob Blackman: About the attitude of staff, one of the problems is that we have had evidence to suggest that people join public service because they are not natural entrepreneurs, they do not want to go out and get business, be competitive and so on. They want to do a good job for local people and be in a fairly stable environment. They are not natural go-getters and entrepreneurs. Is that a challenge? Is that a problem?

Catherine Staite: I think that is a real oversimplification. If you see people empire-building and building budgets in the public sector, I think you see some pretty good entrepreneurial behaviour. I think there are two different things: one is about people's behaviour and the way that they work, their flexibility, and ability to take on new things; and the other is their personal security. The traditional view of the public sector is that people's jobs are relatively secure. That is changing rapidly now, which is one of the reasons why the mutualisation may be appealing to some people, because they may actually feel it is safer than the alternative. We teach a lot of practitioners in local government and in other parts of the public sector who do master's degrees and PhDs with us and we see very high levels of intellectual capacity and very creative thinking and willingness to do things differently. Sometimes the organisational structures or the political thinking may constrain that, but I do not have a blanket sense that everybody who has gone into the public sector just wants a quiet life and no excitement.

Mark Bramah: I think it is down to the management and the organisational culture. There are good examples of where, if you empower staff, they will take a more entrepreneurial approach in terms of looking at different ways of delivering services, different ways of generating income. There are examples and you do not need to have a co-operative or a mutual or a different form of organisation for that. It can be done within a local authority direct service provider. It is down to the kind of organisational culture and the management culture that exists in those organisations.

Q121 Bob Blackman: The final barrier that has definitely been raised in evidence to us is the problem of pensions. How big a problem is that?

Mark Bramah: It is a significant one. The question of admitted body status is problematic for some of these organisations. There are examples of where the local authority will act as a guarantor. I certainly think it is a problem for new starters. Even if the local authority acts as guarantor for these organisations, the issue of whether people who are new starters in those organisations can then join the pension scheme is difficult. If these organisations multiply, it is also unclear whether public sector bodies will be willing to continue to act as a guarantor. The pension liabilities and the strain on the pension fund are significant for small admitted bodies. It is a problem.

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Q122 Chair: I have a brief further point, as we are time constrained now. Just in terms of the whole democratic issue, is there a danger that we slip from using terminology about councils representing communities, to users within communities, to users helping design services, to eventually maybe users as part of a mutual? As I said to Steve Reed last time, it sounded as though these councils were switching from elected representatives to becoming community workers—sort of nursemaids as part of a co-production process. I wondered whether there are conflicts around the council's overall role as a democratically elected organisation to this role as councils very much handing most of the responsibility to users for doing that?

Mark Bramah: I think accountability is a very important issue. There is a potential democratic deficit there. The evidence we have seen is that these organisations are democratic in themselves. They are accountable to the service users and to their own organisations. Whether they are accountable to the wider community and to elected representatives is problematic. I give you the example of Rochdale Boroughwide Housing. It has 13,7000 houses, and around 16,000 tenants. As an ALMO or as a local authority housing department, it is accountable to 60 elected members. It currently has less than 500 tenants and staff signed up at the present time for the new mutual organisation, so there are clearly some issues about how accountable that organisation is going to be unless it can get much wider representation from within the tenants and staff. So, from APSE's point of view, we think there is a clear issue here about how those organisations retain accountability within local authorities' responsibility to be stewards of their area.

Catherine Staite: The accountability of services outsourced or commissioned, whatever the model is, is through the council officers who commission back through the members. That is a strategic accountability. I know some members find it a bit frustrating if the service has been outsourced and they do not feel they can pick up the phone and shout at

somebody and get something done for their particular resident. That may not necessarily be a bad thing because if you get some strategic gains from it, then members are actually looking at the bigger picture rather than worrying too much about the detail. The lines of accountability should still be clear. For members, it is sometimes difficult that people are engaged in their roles as users or carers or tenants as well as in their role as a citizen who votes, and so information about what people want or what is important to them comes to members through a number of different routes, not all directly through them. It is how the authority as a whole balances and weights that evidence about what is important that is a sign of sophistication in the organisation in a local authority. I do not think it should be impossible to trace the line of accountability back to members.

Tony Bovaird: Where we are talking about the co-operative council as one which uses co-ops and mutuals, it is quite clear that we expect just as much accountability to elected members from those organisations delivering public services with public money as private sector or other third sector providers, or indeed just as much accountability as in-house providers of the services. The other strand, however, is on the accountability that comes through co-production. You ought to consider here the possibility that the public sector can be much stronger in accountability terms if citizens are much more satisfied through their own activities in working with designing, planning, managing, running, evaluating public services when things are going well, and the remaining things that politicians have to be accountable for to the public may actually be less problematic because we have better outcomes from public money through the co-production process. I would say the co-op and mutual strand has a different form of accountability from the co-production strand of the co-operative council.

Q123 Chair: Thank you all very much indeed for coming this afternoon and for giving evidence to us. Thank you.

Examination of Witness

Witness: **Professor Julian Le Grand**, Chair, Mutuals Taskforce, gave evidence.

Q124 Chair: Good afternoon and thank you very much for coming. For the sake of our record, could you just give your name and the organisation you represent please?

Professor Le Grand: I am Julian Le Grand. I am a Professor of Social Policy at the LSE but I am here in my role as Chair of the Mutuals Taskforce.

Q125 Chair: Thank you very much. You are most welcome. This is obviously our second evidence session in our inquiry into the co-operative council. Thank you for the evidence you have given us so far and for coming this afternoon. In terms of terminology, we have been trying to grapple with the various names that people give to different things and sometimes to the same thing; it is not always exactly

clear what is meant. Can you tell us what you think the principal characteristics of a mutual are? Are the words "mutual" and "co-operative" interchangeable in that respect?

Professor Le Grand: Certainly, the way the Taskforce is interpreting it, we talk about public service mutuals: an organisation that is spun out of the public sector, that continues to deliver public services and has a high degree of employee control.

Q126 Chair: Right, and that is employee rather than user? Is that simply a definition for your purposes rather than a general definition?

Professor Le Grand: That is our definition for our purposes, yes.

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Q127 Chair: Does that differ from a co-operative or would it be interchangeable?

Professor Le Grand: For a workers' co-operative, it is pretty close, yes. There are other uses of the terms, indeed as you have been told. There are multiple stakeholder mutuals, where you have employee-involvement, user community involvement/control, maybe even a joint venture partner, but on the whole the ones we are dealing with are employee controlled.

Q128 Chair: Is that because that is the job you have been given rather than the job you have chosen to do?

Professor Le Grand: It is the job we have been given, yes.

Q129 Chair: Right. In terms of the work you have done so far, have you identified certain public services that would be better delivered, easier to deliver, through mutuals and some that may not be?

Professor Le Grand: Yes. In terms of specific areas, health has been, I suppose, the lead department on much of this. We have identified certain other areas: social care, social work, community learning, youth services, Sure Start children's services and so on. I suppose in answer to the second part of your question—whether there are areas that we would be a little careful about mutualising—the chief worry would be complete monopolies in the sense of handing over a service completely to a provider that was not subject to any degree of contestability. Handing it completely over to employees might not be seen as the best way forward.

Q130 Chair: Can you just explain a bit further about one that is not subject to contestability?

Professor Le Grand: If you have a complete monopoly and you are handing over a service completely to the employees, questions arise such as those you were asking of your previous panel about accountability to users, as well as accountability to councillors; users having nowhere else to go. It is not impossible but we think maybe something like a multiple stakeholder model would be more appropriate in those contexts, where you have a degree of employee control but you also have community involvement and possibly other forms of stakeholder involvement.

Q131 Chair: You have identified what might work. You have identified an area that will not necessarily be suitable for a region, but something else is. Do you stop at that point and say, "That is somebody else's responsibility. We only deal with mutuals"?

Professor Le Grand: No, we are thinking about multiple stakeholder models. There are one or two areas like probation where it might well be that we end up with rather large mutuals but, on the whole, we tend to prefer to work with mutuals perhaps at the smaller end that are operating in a contestable environment.

Q132 George Hollingbery: It seems like a daft question, but what has the taskforce been doing?

Professor Le Grand: Our official aim is to engage with, to challenge and promote the activities of the

agenda, which is in the Coalition Agreement, to promote public sector mutuals. One of our chief activities has been spreading the word; I have spoken at innumerable events to try to take things forward. We have talked with mutuals themselves and, indeed, tried to work out some of the problems that they have encountered. We have assembled the evidence, and that is really what we have submitted to you: the evidence that we have been able to accumulate on the performance of mutuals in various areas. We are in the process of writing our final report, which is trying to identify the various barriers that mutuals face in setting up and in sustaining themselves, and the next steps that Government might take to try to overcome those barriers.

Q133 George Hollingbery: Assuming that your remit is to work with mutuals and for mutuals and this is in the Coalition Agreement, are you in a position at all to make any judgment about whether mutuals are a good idea for public service delivery?

Professor Le Grand: I think the Mutuals Taskforce as a whole, and indeed the individuals on it, are very committed to the idea that mutuals are a good idea. Indeed, we have assembled the evidence to try and prove that.

Q134 George Hollingbery: Can we just hear a little of that evidence?

Professor Le Grand: Well, the evidence tends to suggest that there are what I call in my academic fashion—and I apologise for this—intrinsic benefits and instrumental benefits. The intrinsic benefits are the benefits to employees themselves. There is quite a lot of evidence that employees, I suppose at the basic level, are happier and are more contented in mutuals. It shows up in figures. Absenteeism is much lower in mutuals. The sickness rate is much lower in mutuals. It is easier for recruitment and staff retention. There is quite a lot of evidence across the board on that.

Q135 George Hollingbery: Can I just ask quickly if that differs from the private sector in a meaningful way?

Professor Le Grand: It is mostly evidence from the private sector, yes.

Q136 George Hollingbery: Okay. I was thinking more about absenteeism and so on and so forth in the public sector versus the private sector—so private business. Can you place mutual public services in that spectrum?

Professor Le Grand: We do not have at the moment a great deal of evidence on public service mutuals. We have our Pathfinders. Another part of the activities of the Mutuals Taskforce has been to buddy Pathfinders. Each one of us has a buddy or a couple of the Cabinet Office Pathfinders and we go along and talk to them and we have some evidence emerging. A patient survey conducted by City Health Care Partnership demonstrates that 85% of respondents rated the care and support as "excellent" or "very good". Sickness absence at City Health Care Partnership has dropped from 5.1% to 3.7% in the space of a year. Central Essex Community Services has found sickness

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absences have dropped by two days per full-time equivalent.

Q137 George Hollingbery: Can you separate that from general economic conditions? In other words, there is an incentive to stay in your job currently and be rather more diligent than there might have been three or four years ago.

Professor Le Grand: Yes. That might not necessarily affect sickness absence; but these are at the moment at the level of case study examples. They are not properly controlled experiments as yet, and we have only limited evidence on that. However, that said, I see no reason to suppose that the crucial differences between the private sector and the public sector are such that they invalidate in some sense carrying over the private sector evidence to the public sector.

Q138 George Hollingbery: In the private sector mutuals you are looking at, is there a profit incentive? Is there a distribution to the employees?

Professor Le Grand: There is, but our mutuals are not not-for-profits. There is no reason why they should not also have that incentive.

Q139 George Hollingbery: I understand that. I am simply trying to separate out the worth of a private sector mutual if it generates profits for those who are employed in there and participate directly in them, like the John Lewis Partnership for example, against those where there is no profit incentive, where you are simply turning up for work and you are spending public money.

Professor Le Grand: Yes. As I say, with the public service mutual, as far as we are concerned, they can take the form of for-profits. In some senses, I always think the for-profit/ not-for-profit distinction is a rather odd one. Every sustainable organisation makes a surplus of some kind and the question is how it is distributed: is it distributed to shareholders, is it invested back in the business, is it distributed to employees? One of the things most of us on the Mutuals Taskforce find rather attractive about mutuals is the fact that the surpluses are either invested back in the business, invested in the community in some cases, or invested in the employees.

Q140 George Hollingbery: How far in particular are you looking at the delivery of local public services through mutuals or is your remit wider than that?

Professor Le Grand: It is wider. The chief other area concerns the National Health Service, and indeed, that is where a lot of the preliminary work has been done. As I say, we are concerned with local government, and I think I mentioned to begin with that there are areas particularly, like social care and social work, where we are exploring the potential for mutualisation.

Q141 George Hollingbery: Finally, do you provide practical guides and help for those wishing to establish mutuals or are you simply engaged in a report activity to bring out a report to bring back to Government?

Professor Le Grand: We are chiefly engaged in the report activity. We have produced a paper on procurement in fact, but in conjunction with the Cabinet Office. Indeed the major work done on mutualisation has been done by the Cabinet Office. They have the Mutuals Information Service and the Mutuals Support Programme, about which you may have heard. This is not directly a concern of the Mutuals Taskforce.

Q142 George Hollingbery: So there are Government resources available to those who wish to set up mutuals?

Professor Le Grand: Oh yes. The Mutuals Support Programme is running at the rate of about £10 million to £14 million.

Q143 George Hollingbery: Have you assessed its effectiveness?

Professor Le Grand: It has only just got going in the past month or two. As I say, this is not really part of the Mutuals Taskforce work, but I know they are getting a lot of inquiries and there are quite a large number of cases coming through. It is early days.

Q144 Bob Blackman: Thank you for the evidence you have given thus far both in writing and verbally. UNISON would directly contradict one of your pieces, which is the position over people who transfer, either outsourced to public or voluntary sector bodies or into mutuals. Their evidence is that staff then suffer reduced pay, reduced pension conditions, reduced conditions of service; that there is poor monitoring, poor quality control by local authorities and reduced accountability to service users. How would you answer that objection?

Professor Le Grand: Yes, I have seen their statements to that effect. You are right. It is a direct contradiction. Our best systematic reviews of all the evidence tend to be that in both private and public sector you get better wages and better conditions. We will just have to sit down and forensically go through where UNISON is getting its evidence from but, as I say, it is not the evidence that we have been able to access, looking across the national and international evidence.

Q145 Bob Blackman: Is it fair to say that UNISON may be looking at services that have been subject to compulsory competitive tender, for example, where staff have been TUPE'd across to private companies versus companies that are mutuals or some other form of co-operative?

Professor Le Grand: It might well be that is the explanation: that they have looked at the private outsourcing rather than at mutualisation, but I am afraid I do not know exactly what the difference is.

Q146 Bob Blackman: No, okay, but you are going to be working on evidence in what sort of timeframe?

Professor Le Grand: We have done a little more work on the evidence, yes, and the paper you have got summarises the evidence as we have been able to find it. There will be a little more on the evidence in our final report, yes.

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Q147 Bob Blackman: When do we expect the final report?

Professor Le Grand: In the summer. It is quite soon.

Q148 Bob Blackman: Right. Okay, interesting. Any idea of when that would be published?

Professor Le Grand: I am sorry that it is very bad timing for this Committee.

Q149 Bob Blackman: Obviously you do not work to the timing of our Committee, but have you any idea of when that would be published, because I think that would be quite interesting evidence to include in the work that we are doing?

Professor Le Grand: It will be June or July but I cannot really give a stronger commitment than that.

Q150 Bob Blackman: All right, fine. The other challenge that we have had in our evidence in our last session is that people in the public sector are not go-getters; they are not entrepreneurial enough to set up their own organisations; they joined the public service to give service to the public, but actually they want someone else to organise them. What evidence do you have that that is true or not true?

Professor Le Grand: Yes, it's interesting. I was listening to some of the comments that people were making on that. One of the striking things that I have felt on visiting a number of mutuals and interacting with them is how entrepreneurial they are. Of course, to some extent we are seeing a demonstration effect here. Obviously, the people who are most go-getting, the people who feel most constricted by the present forms of employment are the ones who want to get out and form a mutual, and they are probably going to be the experimenters, the ones who start it all off. Certainly, I have been struck not by the lack of inclination for entrepreneurialism, but more by the extensive inclination for it.

Now, there are problems about having the skills of being an entrepreneur because these are not picked up easily, and as you say, many of the people who entered did not enter public services with that in mind. But in some ways that is what we hope the kind of things that the Taskforce, the Pathfinder programme and the Mutuals Support Programme can bring: to assist them in providing the skills. The inclination does seem to be there in my experience.

Q151 Bob Blackman: I would agree. My experience is that people at the sharp end have got really good ideas about how to do things, and that it is the management that prevent them from doing it.

Professor Le Grand: That is often true.

Q152 Bob Blackman: Do people need some form of organisational structure above and beyond the surface to run a mutual? Is that a barrier to people setting these up—the fear factor of, “We have got to run our own company, an organisation that we are totally unfamiliar with”? Is that something that comes into this?

Professor Le Grand: I am sure that some members of the organisation will tend to feel that. Again, I would not say that we have really identified that as a massive

problem. Most of the people seem reasonably convinced they can do it. They may be fooling themselves of course, but we do not seem to encounter massive fear and insecurity. Of course, it might be that there are lots of people out there who think about mutualising and are probably turned off the idea because of the fear factor, but as I say, again, it has not been something we have really encountered.

Q153 James Morris: We talked about the potential benefits to employers and, as you said, the evidence is largely in case studies and somewhat anecdotal, but in terms of actual delivery to service users, some of the evidence that we have is saying that there is little evidence that mutuals contribute to a better delivery of services more generally. Have you got clear evidence that mutuals can help in the delivery of services?

Professor Le Grand: We certainly have in terms of the general evidence I was talking about that customer satisfaction is much higher in a whole range of areas, and indeed, I think I gave you an example. We had a patient survey conducted for City Health Care Partnership that demonstrated a 7% increase in—

Q154 James Morris: So why do you think that is? Is there a link between employee ownership and delivery or are there other factors at work?

Professor Le Grand: It is a good question. I think there are a number of factors. When the employees own the enterprise—and not only in a financial or physical sense, but in a metaphorical sense; they ‘own’ what they are doing—they simply do a better job. They seem to be more committed to their service users. There is a metaphor that I tend to overuse in this context, but David Hume at one point said that everybody who worked in the public sector was “a knave”—essentially self-interested. I have always been struck by the people in the public sector being something closer to a knight than a knave, much more committed to public service and public service altruism, and particularly in these mutuals. The people I encounter are very dedicated to what they are doing and in many cases that has often been the driving factor in their desire to mutualise, not so much to improve their own working wages or terms or conditions but to improve the quality of the service they provide.

Q155 James Morris: Are they more efficient?

Professor Le Grand: Again, the evidence tends to suggest they are. Again, this is the general evidence involving the private sector and the public sector; it is not necessarily specific to our public sector. Yes, they are at least as productive and in many cases more productive.

Q156 James Morris: I think you touched on it in answer to the Chair's question earlier, but what do you see as the principal drawbacks of mutuals? They are clearly not a panacea for all our ills in public service delivery, are they?

Professor Le Grand: I do not think they are, no. I don't want to sound too Pollyanna-ish about this but I am, obviously, an enthusiast. It is actually very

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difficult to find evidence where they do worse than the comparable organisation, whether it is a comparable public sector organisation or a comparable private sector organisation. I have indicated that in the case of a monopoly or a situation where it is not contestable I get a little more nervous about the idea of mutuals, or the kind of mutuals we are talking about. Multiple stakeholder models where you have a community involvement, for instance, are probably desirable in such a context.

Q157 James Morris: Just on that point about the contestability, is that just because it could lead to behaviours that are not desirable? Is that the objection, or is it an economic one?

Professor Le Grand: I suppose I think that monopolies of any kind are undesirable. I am an economist by training and I would think that, wouldn't I? There does seem to me a danger: if there is no possibility of either the commissioner at the local authority or the user going somewhere else if they are getting a bad service, that does not seem to me a recipe for a good quality service.

Q158 George Hollingbery: Can I just ask a question that is slightly bothering me? Why is the world not full of mutuals? If they are more efficient, have happier employees and generally do a better job, why is the world not full of mutuals?

Professor Le Grand: That is a very good question in general terms. In the 1970s, there was a lot of interest in mutuals and economists particularly developed this area of study; they called it the labour-managed firm. They identified two problems with labour-managed firms, the workers' co-operatives, one of which has not been properly tested and one of which has been disproved. The first problem they identified, the one that has been disproved, was that they would be rather bad for employment, they would not increase employment. You can see the kind of logic: if you have got a workers' co-operative enjoying the distribution of the surplus they do not necessarily want to bring more people in. Actually, that turned out not to be the case. The economists have not explained why that is not the case, but it is not.

What they do not seem to be as efficient at is highly capital intensive industries, particularly industries where you see fast-moving technologies. They are not as nimble in IT or those sort of areas as conventional profit-maximising firms. You are seeing mutuals in service areas, like John Lewis for instance, and so on, or you are seeing consumer co-operatives like the grocery store, The Co-operative, but you perhaps see fewer co-ops in highly capital intensive industries.

Q159 George Hollingbery: What occurred to me, which I think is roughly the same, is that the reason we see few co-operatives is because they are the ones at the end of the course of attrition that survive.

Professor Le Grand: Sorry, say that again?

Q160 George Hollingbery: It seems to me that there probably are or have been many co-operatives over the years that have not survived, and what we are left with is the extremely well-positioned ones with

excellent marketplace recognition and so on and so forth, which suggests to me that there is a limitation with the model. This is what worries me slightly. If it was such a wonderful way to run a business, a collection of people engaged in a common task, there would just be lots more of them.

Professor Le Grand: Of course, in some countries there are a lot of them. In Mondragón in Spain, in northern Italy and in France there are large numbers of mutuals. I suppose, if I can slightly tangentially reply to what you are saying, there are clearly challenges to both the establishment of mutuals and the sustainability of mutuals once established. I am reluctant to go into that in great detail at the moment because our thoughts on that are coalescing into the report, and the report that will be emerging is discussing quite a few of those challenges.

Q161 Chair: Two particular points: in terms of efficiencies, is there hard evidence that management overhead costs are reduced when co-operatives are created, and included in that the extra client costs, which presumably are there, to supervise and oversee the co-operatives from a client side point of view?

Professor Le Grand: I believe there is some international evidence that management costs and overheads are reduced, yes, but this is comparing private sector organisations with mutuals. I don't think we have direct evidence yet on public service results.

Q162 Chair: Is that something you will be looking to monitor?

Professor Le Grand: Yes, indeed. One of the interesting things of course about the present time is that we should be able to set up—and I very much hope we are going to set up—a proper monitoring experience of, if we are developing these public service mutuals, what happens to them. How does it work and do they really deliver the benefits that we anticipate they will?

Q163 Chair: If there is eventual evidence that they are more efficient and better for employees and service users, what about the wider community in the sense that the community owns the public service delivery mechanisms when they are wholly within the public sector, but as a mutual they are floated off, they are really outsourced? Is there a danger that accountability to the wider community is lost as part of this process?

Professor Le Grand: I think there is a different form of accountability. At the moment in the public services—let us say directly managed public services—the accountability is through the management structure. With mutuals, you are going to have accountability through the contracting process. I think there are advantages and disadvantages to both. I tend to feel that actually in many ways it is easier to enforce accountability through the contracting process, but there are obviously potential differences in views on that. Of course, the other thing about mutuals is that you have other mechanisms of accountability. You have certainly got accountability to employees, because of course you have employee ownership within a mutual. Multiple stakeholder

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models do offer some other routes of accountability to the community directly via a community stake in the mutual.

Q164 Chair: So wouldn't there be benefits in looking at that model rather than just the narrow model which you were set up to focus on?

Professor Le Grand: Yes, I think there are benefits in looking at that. I do not think it is an alternative, but we have limited time, efforts and energy and at the moment our concern is with the employee ownership model. There is a case for focusing on employee ownership. This would not be an official Mutual Taskforce position, but it is to do with commitment. The problem with consumer co-ops or other forms of co-ops in some ways is that as a consumer you actually use a particular co-op relatively rarely, and it certainly does not take up your day. It is a relatively small part of your life. People's work lives are a very large part of their day; a very large part of their lives, so actually the degree of commitment involved in employee co-ops is possibly rather greater than the degree of commitment you might get in the consumer co-op. That is one of the reasons again why we are particularly interested in the employee co-op model.

Q165 Heidi Alexander: Let me apologise to start off with for not being here for all of the session. I understand that you are producing a report from the Mutuals Taskforce later this summer which looks at some of the barriers in terms of setting up public service mutuals. I have a number of questions around that and it might be that you will not feel able to answer them fully, but, broadly speaking, could you just give us some ideas of the key areas where you see significant barriers? Is the procurement process, for example, a problem in terms of public sector mutuals and setting them up?

Professor Le Grand: Clearly, there are procurement issues. There are issues surrounding culture, obviously. There are a variety of EU issues; you were talking about some of them earlier. I have to say I would prefer not to go very far down this route because I do not want to go off half-cocked and anticipate our report, which is due out fairly shortly.

Q166 Heidi Alexander: Okay, but presumably in your report you might be looking at issues to do with pension liabilities, VAT, all of those sorts of technical issues?

Professor Le Grand: I rather doubt that we shall be spending a great deal of time on those, no, but as I say it is early days as yet.

Q167 Heidi Alexander: So you do not think that those particular areas cause problems in terms of public service mutuals?

Professor Le Grand: I think there are technical problems and there are cultural problems, and in some ways the cultural problems are more interesting and more problematic than the technical problems.

Q168 Chair: Have you any idea when your report is likely to be produced on the barriers?³

Professor Le Grand: In the summer. I have already talked about June or July.

Q169 Chair: Presumably we are going to have a copy of that when it is available?

Professor Le Grand: Of course. It is a top priority.

Q170 Chair: Just a couple of points: one of the highest profile possibilities for a mutual was the spinoff from some work for the Audit Commission, and it was not exactly the greatest success was it? Is it something that you were involved with, you were hoping to help along, and is it one of the examples that you might be drawing some lessons from when you look at the barriers to mutuals being developed?

Professor Le Grand: No, I was not involved and I am not really familiar with the Audit Commission spinoff. I think it is probably safer if I do not comment on that.

Q171 Chair: Are you not looking at that as one of the possibilities that simply did not take off, where there may be barriers that stop that from happening that could also be barriers to other mutuals?

Professor Le Grand: We are certainly interested in the experience of mutuals and we are certainly looking at that. I should say, as part of the Mutuals Taskforce, our focus is very much on the wider public sector, local government, the NHS and so on, and not so much on central Government organisations.

Q172 Chair: Right. But again, you will be looking at that as part of your report.

Professor Le Grand: We are looking at local government and—

Q173 Chair: So you are not looking at the Audit Commission at all?

Professor Le Grand: I don't think we will be looking specifically at the Audit Commission experience, no.

Q174 Chair: Right. Might we encourage you to do so? It is at least an interesting example where there was a lot of support from the employees. The Committee produced a report which indicated that that would be a real possibility for diversifying competition. It has not got a monopoly market. Yet it just did not happen.

Professor Le Grand: Thank you for that. Yes, I agree with you.

Q175 Chair: Just finally, we have had recent legislation on the Community Right to Challenge and the Public Services (Social Value) Act. Do you think they are going to have any impact on the potential for mutuals to be created and, if so, what?

Professor Le Grand: I think the Social Value Act is very interesting. There is a potential problem, obviously, with the mutuals and spinning out of mutuals, in that they are confronted with competition immediately. We were mentioning earlier some of the problems. You have people who are not experienced in operating in a competitive world or in a commercial world of any kind. Whether the Social Value Act can offer some assistance in this respect is an interesting question. There is the Community Right to Challenge,

³ mutuals.cabinetoffice.gov.uk

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which would offer some potential for this, I think, and it will be open to employees to be part of that. There are more general questions about whether employee ownership adds social value and hence comes under the provisions of the Social Value Act. We are looking into that and I think there is some potential there.

Q176 Chair: When you say you are looking into it, does that mean you are going to produce another report on that? It would be interesting to have your thoughts about it. If you have not immediately got them I quite understand that, but it is an interesting point you are raising there. It would be helpful if you could let us have some further thoughts on it if that is possible?

Professor Le Grand: Could I take that back?

Q177 Chair: Absolutely. Yes.

Professor Le Grand: We have only just begun to think about that.

Q178 Chair: Okay. If you could let us have some written comments on that I think that would be a very helpful additional point to make to us. Thank you very much indeed for coming in and giving evidence this afternoon.

Professor Le Grand: Thank you very much.

Monday 11 June 2012

Members present:

Mr Clive Betts (Chair)

Heidi Alexander
Bob Blackman
Simon Danczuk
Bill Esterson
David Heyes

George Hollingbery
James Morris
Mark Pawsey
Heather Wheeler

Examination of Witnesses

Witnesses: **Phillip Blond**, Director, ResPublica, and **Lord Glasman**, gave evidence.

Q179 Chair: Phillip and Maurice, welcome and thank you for coming this afternoon to the third evidence session in our inquiry into the Co-operative Council. I have been with both of you before at different events on different subjects, and we are looking forward to an interesting afternoon of evidence. For the sake of our records, however, could you say who you are and the organisation, if any, that you represent?

Phillip Blond: I am Phillip Blond, director of ResPublica.

Lord Glasman: I am Maurice Glasman, a Labour peer.

Q180 Chair: Thank you very much for coming. As a general opener, there is a lot of discussion about how public services should be delivered. Do both of you think that co-operative approaches, in the broadest sense, have a real role to play in changing the way services are going to be delivered in the future?

Phillip Blond: Definitely. The old model of the public sector is that we deliver the same thing in the same way to everybody and that is the only way that equality and equity can be assured, but we now know that, if you deliver the same thing to everybody, given that people's needs vary across almost every vector you meet, you do not meet people's needs. Oddly, we already have a postcode lottery, so delivering in the same old way without involving people creates the very things people wish to avoid.

The co-operative approach can be defined in a number of ways. There are one-way, two-way and multi-way co-ops, but there is a need to involve more people in a different way in delivering services in parity, regardless of one's politics, because the old approach of just delivering the same standardised services has not addressed the problems it was meant to address. I think that the co-operative model, if it can go to scale, offers something that could really transform out of all recognition the way we deliver public services.

Lord Glasman: Thank you for the invitation. I apologise to the Committee for not yet having submitted my written account. I will do so. When I accepted this invitation, I did not know there was an England game on, so it is tempered. The rejection of a managerialist model, which was dominant, is extremely important. I have watched the Co-operative Council and what Steve Reed has done in Lambeth and generally with great interest.

I think we have reached a range of limits, and the idea that you just transfer power to workers and that will sort it out has the same flaws as any single dominant interest. In any institution there will always be three fundamental units: users, workers and funders. It is important that we work towards models where there can be a balance of interest in the governance of things as between users, workers and funders. It is very important that local authorities and the state do have interests and a participatory role. In technical language, which is very unfortunate, in the co-operative tradition it is called the multi-stakeholder model. I do not think there is very much political mileage in that, but is an idea pioneered in Germany whereby there should be a balance of power between users, funders and workers, and they should negotiate among themselves on the delivery of services. The co-operative tradition is very important but it should not be subsumed by mutualism.

Q181 Chair: When we launched the inquiry we had terms of reference. We were told afterwards that they were a bit restrictive because we were looking narrowly just at co-ops. We were told, probably by Steve Reed in Lambeth, that they were not looking narrowly at the delivery of an individual service but at a general way of working that involved users more. I think it was referred to elsewhere as "co-production", but is this really just a fancy name for better engagement with the people for whom you are providing services and something that all councils ought to be doing?

Lord Glasman: I think the whole engagement with people who use services is vitally important. My experiences from community organising—London Citizens' Living Wage, Community Land Trust, and these things—is that the initial problem is to engage interests—that it is in people's interests to do so. It is a fallacy to say, "We'll open up the space for users and they'll step up." There has to be a very strong organising element around the interests of users and leadership development for local people to participate effectively in those things; otherwise, it will not happen. But it is to move away from a contractual service model built around choice and things like that and to organise the interests of users. There always has to be delivery, and that must engage workers and the people who deliver the services. The interests of local authority funders also have to be recognised in a broader range of issues. It is a truism that it should

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always be responsive to users, but it also involves them having responsibility and a leadership role in delivery. This is quite new territory.

Phillip Blond: I think it is worth asking, what was the problem co-ops were originally meant to address? That problem was an ownership crisis and essentially the creation of a waged class of human beings who never had an opportunity to be other than that. Oddly, that crisis of ownership we had in the 19th century is one we now face in the 21st century. The story of the last 30 years is the massive capture of assets, ownership and opportunity by those at the very top of society. What we have is a new form of ownership crisis. If you look at anything from SMEs, who holds shares to who holds the percentage of the wealth, what you see is that in our country we have been decapitalised. If you take liquid wealth, which is used to start a business and finance education, in 1974 the bottom 50% of our country had 12%; in 2007 it had 1%. What has happened to our country is that increasingly the bottom 60% and 70% have been decapitalised. Capital has been removed from them. They made up the difference in the past with debt, women working and a drop in the price of consumer durables. All of that has changed, but it has left us with a debt crisis. People are heavily indebted, and there is no way of getting out of it.

The rise of co-ops now is not just incidental, fluff or part of some kind of covert agenda, cover for cuts, or whatever is the polemic against it; it is one of the few ways to address the ownership crisis, if not the fundamentally decisive way. What is interesting, and where the Government should be praised, is the development of various forms of capital financing. Often, poor people have only public sector income; they do not have anything else. What is interesting about the new models that the 21st century co-operative agenda makes possible is the ways to capitalise people, even if they are only on public sector income streams, as a way of giving them an ownership stake, and then aggregating people so they are not just individuals and can reverse from being just passive public sector consumers to asset owners, agents and facilitators in redeeming their own communities.

The win for 21st century co-operatives is no longer just what it was for 19th century co-operatives. We know that ownership produces a huge level of other goods: a sense you can make a difference to your community and you can contribute. It is wonderful that the Committee is addressing this, and the question is, how can we use the public sector to achieve that ownership goal? That is common to both right and left. That is the real agenda. If we do not address it and realise in particular the poor's over-reliance on the state and public sector, it is not clear to me there is any option for people other than permanent low wages.

Q182 James Morris: Is there not a bit of a contradiction in what you say? I am trying to get my head round it. On the one hand, you are arguing that it is something to do with spreading ownership; on the other, you are saying that it is to do with improving

service delivery. Are the two synonymous in your mind?

Phillip Blond: Ownership is a diverse good, and all of the research shows that it is not necessarily capital assets held; it is also a sense that people can make a difference to their organisation. From the British Army to John Lewis, we know that, if people feel they can make a difference to their organisation, they have, broadly speaking, what one can call ownership.

Q183 James Morris: I am sorry to cut across, but is that not what motivates people to work in the public sector anyway?

Phillip Blond: What I am interested in is not just empowering people who work in the public sector, but the recipients of public sector funding. We have seen a huge rise in welfare, but the people who are the subject of that welfare do not seem to become more active; they do not have their levels of inequality addressed, and are losing even more. The 21st century model for co-operatives is not just member-only co-operatives; it is a shift—call them “community”, “user” or “multi-stakeholder”—to empowering the whole environment in which people operate. You do not even have to begin with financial ownership; you can begin with people having the ability to direct an organisation. If you do that, it can lead to financial ownership, and vice versa; it cuts both ways.

Q184 James Morris: Do you have evidence that in this relationship service delivery will improve if we have this new ownership model?

Phillip Blond: Off the top of my head, I can quote Sandwell Community Caring Trust, which spun out from West Midlands.

Q185 James Morris: I know it well, coincidentally.

Phillip Blond: They did a survey, I think, in 2009. They are an adult and children social care home. From memory, the council's in-house price per person per week was £658; for the spun-out service, it was £328. You immediately say, “I bet the staff have been treated terribly, their pensions slashed, and their wages have fallen.” Not at all. The number of sick days per year fell from over 20 days-plus per employee to 0.3. The level of money spent on front-line services—so reduction in bureaucracy—went from 68% to the 80% decile.

Q186 James Morris: I happen to know that community care trust well. Does that not illustrate the lack of clarity of some of the definitions here? I am not sure that organisation is actually a co-operative in the sense you are describing it; it is really a social enterprise. Again, there is a bit of confusion about terms here.

Phillip Blond: You are quite right. Mutualism covers a range of operating models. Currently, there are about four legal models that fit essentially within the co-operative model. I suggest to the Committee that we need a new company model. We cannot go to scale unless we get a new legalised form of company model, precisely for the reason you raise. The point you raise is a good one, which is, if we remain bound by a 19th century definition of co-operatives, we

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remain trapped. Co-operatives have to move beyond a membership-only model to a much more diverse one that includes all the stakeholders and players, all of whom will have a different role. We probably all agree that we need to move away from centralised, standardised delivery, but we are not clear about what we are moving to and that is what you are speaking to. What I suggest is that we need a broad definition and a company model that supports that broad definition. There are multiple ways to be mutual; there is not just one way to be mutual. We need to encourage all the different ways that we think are socially and economically productive, and then let people decide on the good that they realise.

Q187 George Hollingbery: I sit here as a former councillor and I think of three or four things—there were many—that went on in that council while I was there. I think about a co-op village shop in which the local council put money and in which local residents owned shares or debentures. In some years they were paid; in some years they put money in. With personal budgets in social care you are shaping the budget for yourself; you are encouraging the marketplace, which means you might get provision for less, and in the future you will get more and new services in different ways. That is your asset in the community, and I think that is the asset you are talking about. With the village shop, obviously the asset is that you have a shop right there and you do not have to drive miles to shop. You create a local plan; you have neighbourhood planning, where local communities, within the rubric set by the local council, the lowest accountable democratic tier, set the framework that you decorate within it. Your asset there is a community that you recognise; it is one you like and shape round yourself. Even when we change the refuse service we recognise a need to recycle much more efficiently; people want to put their bottles in a certain way and so on and so forth, and so you design a service around those desires. Let's get rid of the "mutual" or "co-operative" label. You are talking about input from the community and ownership of an asset that is created because it is of value to the service users and input from the experts, if you like—the employees and the council—and government directives being dealt with all at the same time. Is there a need for any more formal envelope around this, or will those do?

Phillip Blond: You have described that in a way in which all would see the benefit of it, but, unless you have a more vivid vision, if you forgive the phrase, you are often left with consultation. Co-operatives or mutualisation becomes just a form of de facto consultation. I think the aim is to be much more radical. For instance, if you take personalised budgets, the really radical aim is not just to have slightly better service for individuals, but whether there is a way in which individuals can aggregate together, use the resources of the council and flip from being just consumers to producers.

Take energy as an example. ResPublica has published a report on this. There are many examples. If you can get somebody to be a trusted platform that can aggregate and people individually can buy electricity or use the feed-in tariff and come together, they can

flip into being producers and start to buy out the chain that feeds them. The benefit of this can be massive, particularly for poor communities and those that are often the subject of very high tariffs, because the risk of them not paying is priced into the price they pay for their energy.

This agenda will fail if it is just a form of consultation. If a more radical request is placed on it—to change the economic and capital outlooks of those who participate in it—it has a real chance of succeeding. You are going with the grain of human nature in the sense of, "What are the incentives for me?" but broadening it beyond just the incentives for the individual to the incentives for the community.

Q188 George Hollingbery: Let me just narrow it down. I have been involved at the practical end and what you say sounds enormously attractive. I can imagine a very different world if we manage to convert that, but an awful lot of people consume services. They want to see their bins emptied at the end of the day; they do not particularly want to be involved in that in any way, shape or form. How do we take the step from what I recognise as micro-models of what you are talking about in my community? It was not just consultation; these were users shaping end services. There is no question about it. How do we go from the lethargy of sitting on the sofa waiting for your bin to be taken away to this brave new world where suddenly you have a stake in the refuse service? Seriously, that is what we are talking about.

Phillip Blond: I completely agree.

Q189 Chair: Perhaps Maurice can come in as well.
Lord Glasman: Obviously, you have to engage people's interests. That is the key. That is an organising issue. I wish to share with the Committee that one of the great missed opportunities in the initial days of the big society was the Government's failure to make more of organisers and organising of interests. That is very important. It is the recognition by the people you mentioned in connection with waste disposal that they have to do sorting of the initial distribution and there is no way of simply supplying services that does not involve responsibility and activity by the people who receive those services. That is a long-term story about education: agitation, organisation and education—those old things. That is the nature of the new settlement. Everybody would like to send their children to school and go home. There is not a possibility of just a straightforward contractual thing.

To go back to what Phillip was saying, a very major concern of mine is the lack of asset locks in any mutualisation so far. What that leads to quite quickly, whether it succeeds or fails, is the absorption of these things into the market. If it fails it gets bought at a low price; if it succeeds it gets bought at a higher price. It is very interesting to look at John Lewis. Remember that John Lewis was established as a private family company in 1865 and was not mutualised until the mid-1920s when it was already a successful shop on Oxford Street and Eaton Square in the form of Peter Jones. Then it was endowed in trust

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to its workers. The important thing is that it is impossible to sell and trade on the market, so when Phillip raises the whole question of ownership it causes me huge disquiet because it does not recognise the concentration of ownership to which this form of mutualisation leads.

The first thing is there have to be asset locks and the use of trust and endowment in transferring those assets so they cannot be market-traded; otherwise, they will be bought up. But the key thing is changing the culture of all these forms of delivery so they include participation by users, workers and funders. This is where it is very important to look at the German model. Through subsidiarity they have representation of the interests of funders. Often, it works through churches, local faith organisations and the work force, where delivery of the service and strategy of the institution are negotiated between them. I am sorry to go on a detour about asset locks, but it is vital that is there. Any meaningful form of mutualisation must involve trust and endowment, usually in the form of “endowed to the people of Lambeth in perpetuity for the nation”. That was how it was done with John Lewis.

The parallel, which I think is very relevant, is Northern Rock. It used to be the Northern Counties Permanent Building Society, which was established in the same year as John Lewis. It worked as a very trusted local institution for 150 years, was de-mutualised in 1996, and then look what happened.

Q190 George Hollingbery: I have become slightly confused about asset development as a social and societal good, rather than actual hard assets such as buildings, cash or whatever it is. Perhaps we might develop that later. Just to finish off my section, surely one of the dangers of this is that, if you manage to engage, on the whole you tend to engage people who are more engaged anyway, but by no means exclusively. When we did a report on regeneration we saw that, if you made the right case, you could engage whole communities if you wanted to, but the sharp elbows are likely to become more engaged than others. How does democratic accountability fit with that? I refer to people who are not actually elected but who spend tax revenues and so on.

Lord Glasman: That is where the organising comes in. I can talk here from my experience of Living Wage, Community Land Trust, Safer Streets and that engagement. I feel there is great potential in the whole concept of organising that has not yet been realised. There has to be specific leadership development of working-class, ethnic minority, poor people. In the old days the Labour movement used to do it. I would like to see that happen again, but I also think it has to be tied to genuine interests. What I noticed initially in engaging people in any Living Wage campaign was that the first response was, “We won’t win it”; second, “I can’t do it.” But you develop those leaders and then they go and negotiate, and then you see the transformation in the person. At some point you have to say goodbye to them because they join the management; that is the way it goes, but the development of leadership is an explicit aspect of the statecraft. This is what I want to introduce here. We

have to move with clarity towards a new model of statecraft, and one of the aspects of that is the development of local institutions with local leadership. I noticed that once people got support and realised they can, and that their pay improves, their life improves and their power improves, and then their wages improve, that is where the interest lay. I would never condemn people for engaging; the sharp-elbowed people are to be emulated rather than despised. It is just that it should be distributed further down.

Phillip Blond: Let me use an example. You referred to waste collection. In Denmark what they did to create a more radical outcome, instead of very consultative waste collection services, was to create a local incinerator. If you want to generate local social capital, propose a local incinerator because you will have self-organised groups like you never dreamt of. What they did in Denmark was to make their local incinerator very beautiful and architecturally very interesting and important. They linked waste disposal with that local incinerator and created community ownership of it. The outcome is that bills are 30% lower and the homes linked to that incineration programme have a higher house price value.

That is what I mean by moving the agenda beyond the rhetoric of consultation. This is not meant to be pejorative. I agree with Maurice that leadership training is important, but you have to give very real incentives to people in terms of what they can expect from it. Since group activity creates greater economic reward, do not allow one state model to capture or ossify all that economic reward but distribute it. That is how you create interest. I profoundly disagree with Maurice about asset locks. I think the reason co-operatives have not gone to scale in this country is asset locks. That prevents the raising of proper capital finance and a hybrid return from non-profit and profit that we need if we are to grow the alternative.

If you consult people locally, everybody more or less has three things—they want their areas to be clean, safe and green. That is what most people want in almost every local authority survey of which I know. If you can give people the opportunity to create those outcomes, they will be interested at a street-by-street level. Once you group people together and they achieve one good thing, they become an agency for achieving lots of other good things, because success breeds success. What we have to do, if we want to go to scale, is to be very radical about what we want from mutualisation or co-ops. That is what co-ops have always wanted: ownership. Go that extra mile; do not let it get trapped in a miasmic middle where there is a lot of consultation and people asking what you think. Then I think you can go to scale and build social capital on that.

Q191 Chair: Maurice has one point, but then we have to move on. We could be here for the second half as well.

Lord Glasman: To clarify, the workers of John Lewis do not own those shares inasmuch as they cannot sell them. What they get is a dividend back but they are not ownership shares and they cannot be freely traded on the market. The big difference between us is the

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stress I would put on the idea of vocation. Whether or not you own, they should be incentives to virtue. Good work should be rewarded; the power at work should be recognised. That always has to be the case. There has to be a negotiation of strategy within those things. That is the space to keep open, and that can fit myriad forms of ownership.

Q192 Heather Wheeler: I am interested in where we are with most of our councils now. How do you think councils do engage with service users or front-line staff to empower them to make serious changes in how services are offered or provided to them? How do you think they do that now?

Phillip Blond: I think there is a whole range, is there not? There are very good examples and ones where very little has happened. Let me give you a couple from when I visited Birmingham last year. Birmingham has broken down its service delivery into areas. I thought it particularly instructive that civil servants who had previously worked in service silos were essentially captured by those neighbourhood groups that ran those services. The civil servants became civil; they started working, in effect, for those neighbourhood groups, and those neighbourhood groups then had power and an access point to leverage everything else to try to change their outcomes.

What Lambeth is doing with its co-operative models is profoundly interesting, but I do not yet see the real potential of council mutualisation out there. What councils could and should do is use the rights in the Localism Bill—the right to challenge and the area-based budgeting pilots that are going through—to empower something other than itself and empower pathways, not necessarily through itself. The idea that everything has to pass through a council in order to be democratic or accountable is questionable. That does not necessarily correspond with where most people are.

What has gone wrong with our country is that representative democracy has in effect eroded participative democracy. Representation is something that turns off most people. Councils need to broker something other than themselves to be powerful in their neighbourhoods and create new systems. I would like to see councils becoming alternative financial platforms to enable co-operatives to go to scale, empower rights to challenge and use area-based budgeting so it could say to an estate, “Use your residents’ association, but use it to deliver all of your services. Capitalise all of your services. Cut out the bureaucracy, but use us as an enabling platform that, if things go wrong, you can come back to, but we can facilitate that.” I do not think we have yet seen that. I hesitate to say it because as soon as I do so I know it will be out there, but I would be really interested in the evidence. To conclude, councils have to grow participative democracy, not just constantly seek to validate their own form of representative democracy.

Q193 Heather Wheeler: That is very interesting. Lord Glasman, how do you quantify the engagement as well?

Lord Glasman: There are a couple of ways you can do it. I always judge it by the extent to which there is

leadership from the poorer parts of the community. That is decisive. I am not being Utopian in that way. If there is some engagement by up to 15% to 20% of the local community, you are doing fantastically well. Saul Alinsky, who founded community organising, broke the news that it never penetrated further than 10% to 12% of people but was transformative of those places for all that, because it led to a whole generation of new leaders connected to the different places in myriad ways.

To answer your question properly, we have to look to some extent at the realities of democratic disenchantment in local elections. That manifests itself in voter turnout. By the by, we have to think quite radically about how to do that. I have put forward some suggestions. Tony Travers has commented on breaking down the big boroughs to local levels following the Tottenham riots, for example. Nobody there could recognise anybody from Haringey Council as an entity. I would go further and reconstitute local areas but also city parliaments so they could have some real budgetary power and control over those places. That is just to put it out there. I am being Blue Labour in that sense. We have to work with the institutions that do exist, in whatever impoverished form, and make that the starting point. That is very challenging. First, there are the public sector unions. There has to be a very big conversation there about engagement with people. That is absolutely necessary because they are existing institutions. The move to vocation, partnership and serving people has to be there. In all urban areas the most trusted institutions are faith institutions. We have to look to the engagement of faith institutions in leadership development.

One of the things I am talking to Tottenham Hotspur Football Club about following the riots is a leadership academy in the club, which will work overwhelmingly with mosques and churches in the immigrant communities that are basically delivering no leadership in the councils. Then you look at particular neighbourhood groups and the things with which they are concerned. It is about developing leadership and partnership among groups. I agree with Phillip that they are in the consultation process but not negotiating governance. There is a very good role for the Labour Party in those local areas also to be much more committed to developing leaders from those places that may be outside the progressive mainstream, but none the less have real roots within the communities they serve, and bringing them in.

Phillip Blond: As an aside—this may help—what would a good co-operative council look like? I do not think it is the case that the only authority that delivers public services is a council that is very consultative and nice and has lots of mutuality and reciprocity. I think a radical co-operative council would, I repeat, empower things beside itself. In my work I have seen the role that housing associations or registered social landlords can do. Take Poplar HARCA, for instance, in Tower Hamlets. If one goes further back, one sees a shift in housing from the local state into an autonomous organisation. Bad housing associations essentially remain as top-down deliverers. Good housing associations turn themselves completely

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inside out and allow their residents to run their areas. Rochdale Housing has just become the largest partnership mutual in the public sector. What these do is let ordinary people control their own areas.

What I suggest to you is that at the moment most people feel they cannot control their areas and cannot make a difference to their locality through their council. I think a good council has to recognise that gap and try to empower intermediate groups that are truly independent of the council and can deliver it on a street-by-street or area-by-area basis. For me, a co-operative council would look like something that had created a completely different setting where it was not the sole author of the type of mutual models that were in play.

Q194 Bill Esterson: The question to emerge from the last exchange is, how do you engage with the hard-to-reach groups? It is not confined to this subject. The sharp elbows get in—the residents' associations, parish councils and the existing institutions, which was the phrase you used, Maurice. How do you ensure that the wishes and needs of the people who are not involved are reflected as well?

Lord Glasman: Please cut me off if I become repetitive, but this is a personal thing and I could go on about it all day. The first thing is to have some incentives—that you become powerful and things change. I have seen that experience many times. As to incentives in terms of power, we have to change the parameters of public culture. There is a big thing about failure. We are very “failure” averse; we are very scared of failure, but if you engage people in trying to make new things happen, you learn so much more from failure than anything else. Leonard Cohen is a good guide on this: “There is a crack in everything; that’s how the light gets in,” but we have great managerial resistance. It is a matter of giving people genuine power. There is a real disagreement going on here. I am for building up the local body politic of a relationship with councils that feeds in so you can move leadership in these institutions into political roles, but ultimately you have to make that power available to people and it works within their interests and experience. I am from Labour; this is quite a populist Labour thing. People are very dissatisfied with the present arrangements. You allow people to articulate that, work within that and challenge the prevailing distribution of power.

To get to the hard-to-reach people there has to be systematic emphasis on leadership development; the genuine possibility of attaining powers and resources locally; much greater tolerance of experimentation and failure; and the democratic accountability that goes on within council structures. That is what I mean by a cultural change. I think this means redistributing power to local places so they have far greater status than local politicians and local government. We have to think about the ritual of that and city parliaments. I am very traditionalist in this way—that is, the revival of the old sheriffs and mayors and the things that were abolished in the 19th century. But the answer is a mixture of power, leadership and institutions.

Phillip Blond: The unfortunate thing about modern human life is that when we meet or gather together it is not for purposes of fun or enjoyment, which is why most people do not want to do it. What can we do? The thought of people going to a meeting at night will not engage 99% of the population, but if you look at forms of association that do well and prosper, they are about the wider human goods. You could use an economic incentive to gather people together, but the software that is difficult is making it fun and enjoyable. The more micro you can be about that the better. The idea that you can solve problems almost at a street-based level will make people give a damn. That is the crucial thing.

As to how we can engender that, and engender very localised rewards, like creating a genuinely safe street or dealing with a problem family, or planting trees, there is a lot of low-hanging fruit. If we can create it, that is where you can grow from. In very deprived communities a lot of evidence about micro-budgeting shows that is how you do it. If you can create a very small budget so people in an area can decide what to paint the stairwell, or what flowers to plant, that provides a platform for people who have never done it before to come together.

Bill Esterson: Is it not very time-consuming?

Chair: We need to move on.

Q195 Mark Pawsey: As I listen to more and more evidence I hear issues of scale come into it. You have just said, “The more micro the better.” I almost thought I was listening to Professor Schumacher. Is this not about co-operative councils working when you bring things down to the lowest denominator? City parliaments have been referred to. Bigger decisions are made by smaller units and smaller groups of people, which is largely the Government’s localism agenda. What is the other side of that? Where do expertise, skill, efficiency and economies of scale come into this to enable a service to be delivered efficiently? We have to have regard to that. How do we reconcile those competing forces?

Phillip Blond: You pose the question extremely well. What I would argue in public service delivery is that there are diseconomies of scale, and you get a far greater return the more focused you are on localised demand. One of the things that has gone wrong with our dysfunctional state is that we standardise everything. Then we break it down and cannot put it back together again. If you are able to create a personalised and localised service, what happens is that you deal with the problems much more quickly. Take, for example, call centres. The reason they are being returned to Britain is that the amount of what is called failure demand generated by people not being able to answer problems makes out-sourcing far more expensive. We are now in a situation where small enterprises can be very efficient, but then you raise absolutely the right question: how do we ensure universality of standards? That is the role of the council. That is the type of platform to which people can come and say, “It’s not working out; it has been captured by the wrong sort of group.” That is the type of outcome at which we should be looking.

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Q196 Mark Pawsey: But is that not a case for lots of smaller councils?

Phillip Blond: There is a case for the large and small and trying to broker a new relationship between the two. I do not see any reason why you cannot do that in a networked world. If you create very small groups that somehow, via the new technology, can access all the wealth that previously could be generated only by large groups, you are more efficient, economic and effective.

Q197 Mark Pawsey: Lord Glasman, you have spoken a great deal about the tripartite model involving the work force, service users and the local authority. Those are competing interests, so is the thing not going to get bogged down in bureaucracy and meetings and meetings, and nothing effectively happens?

Lord Glasman: That is the paradox, if you like. That is the only time I will use a term of art. I hope it turns out that where there are tensions and competing interests you get a degree of commitment and energy around a settlement. Before I answer, what I found was that in engaging people's interests there has to be tension and drama. In meetings you have to push for a reaction, so, as opposed to technical meetings, you work towards political meetings that come to an outcome. What it means is that people get involved in the drama of their own lives. There is tension; there is meeting; there are winners and losers. That goes on. It does not have to be interminable. It is best to keep it quick but to recognise that there are tensions and interests and there is a common good. That is why one goes on about the politics of the common good. I give a private sector example. The argument in the 1980s about British and German industry is that we could make fast, decisive decisions, and German industry got bogged down in interminable details to do with the funders, workers and the locality. I remember both the Conservative and Labour sides saying that the argument about the German economy succeeding was laughable because it was too cumbersome. I think the evidence is in that you have a cultural framework where there is both tension and co-operation within it and the different interests negotiate an outcome. For example, in the early years of the last decade German workers took a pay cut in the boom to go through the corporate governance. What you find is that if people have a sense of a common good, as long as they are part of that negotiation and benefit from it in the long run, they will accommodate far better than if there is just a money interest. The answer is that there is no avoiding negotiating a common good between competing interests; that is life. The crucial thing is to structure it so there is an outcome.

Q198 Mark Pawsey: Going back to scale, that has to be done at a much lower level.

Lord Glasman: Not necessarily.

Q199 Mark Pawsey: We have heard from Phillip Blond that if you have a meeting 99% of people are completely disengaged.

Lord Glasman: I am very much in favour of representative democracy and people representing people in economic and political life. The way John Lewis works is probably the best here, but, if you look at Germany, very large institutions both in the public and private sectors are built upon this tripartite model. What you do is elect the people you trust to represent your interests at the highest level and stick to the agreement.

Phillip Blond: I think this is a recipe for staying as we are. The level of crisis and non-participation out there requires radically different structures that could re-engage. What is interesting is that, if you look at hyper-local websites, quite often they can achieve 80% to 90% penetration in those areas. The hyper-local is the decisive way in which we have to go. It is not the only way and it does not exclude larger scale, but crucially that is part of the answer to the question you have been asking about how to incentivise people.

Q200 James Morris: I was interested in some of the barriers to the realisation of the vision or model that you are describing. If I was an entrepreneur—as I have been—I would not be working in local government. How do you inject this entrepreneurial spirit into local government? Achieving your model implies a tolerance of risk, living with ambiguity and creating new models, and that is not what I have experienced. Lots of good people work in local government, but that is not how I would describe them. There is a lot of bureaucratic inertia, which reasserts the status quo. How do we overcome that?

Phillip Blond: The fundamental point I raise—Chairman, tell me if this is not one I should raise at this point—is that if we are to make a difference we need a new company model. The trouble at the moment is that the company models—CICs, community benefits societies and industrial providence societies—are not ones that can go to scale in this country to create a co-operative vision, quite simply because they do not offer enough incentive in terms of risk and reward. They allow free riding, which is a fundamental problem, and they are not able to access the type of capital businesses need to go to scale. I work very closely with the People's Supermarket in Lamb's Conduit Street. The thing they need is a new market model that will enable them not to have an asset lock, which would be a disaster, but to access mainstream wholesale capital.

What I suggest we need is a hybrid model that allows the interests between stakeholders, recipients of public services and ordinary private sector capital to be varied to blend profit and non-profit, or mutual and non-mutual return. If we can create that new company model—there is consultation, though not public consultation, on what type of company models we need—that will enable us to go to scale, because that will answer the question you are asking about risk and reward.

Q201 James Morris: I hear what you say about the model, but in all this is there not a question about the way people behave in public service and the choices they make to go into public service that militates against thinking about and implementing new models?

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Phillip Blond: The evidence suggests that people who take the mutualisation route are thrilled about it. There are lots of concerns about pensions, security and who will govern, but once they do it they feel their vocation doubly and trebly enhanced. It is not that their vocation is taken away. The reason people get upset in public service and become perhaps not as productive as they might be is that it is thwarted by standardisation and by people not letting their ideas run free. Creating a co-operative model builds on the very vocation that people went into it for in the first place. If we create two-way mutuals, or multi-mutuals, so you can reward the people you help with equity and economic stakes, you can assist them in a holistic way, not just on the basis of, “We’re dealing just with your family problem,” or, “We’re dealing just with your drug habit.”

Q202 James Morris: Lord Glasman, you were talking about the tolerance of risk and failure. That comes up a lot in discussions about innovation in public service, so how should we deal with failure? If we create a new model that gets broken in a particular area and does not deliver the service it is meant to and lets down lots of people—the local press is crawling all over it; the unions are calling it a conspiracy against the workers, or whatever they might be doing—how do we create a culture where risk is more possible, or where we have a greater tolerance of failure?

Lord Glasman: I think this is central. To give a brief anecdote, when Blue Labour started I wanted its tag line to be “Blue Labour: celebrating failure”, but wiser heads prevailed in that particular. But the point of that was to engender within public institutions a culture of innovation and learning from mistakes. It is essential that we have forms of democratic accountability—to go back to Heather Wheeler’s point—and engage with leadership that shares the experience with their families and friends. What you have at the moment is a very stuck bureaucratic model, and then external rage and disaffection. It is essential to have a culture of learning. What we have got to accept is that, if we go towards trust of local democratic leadership, there is negotiation of strategy. What I have not mentioned is a culture of evaluation. You evaluate the model, and there has to be democratic accountability so that, if people do not like it, they can break it off. It has to be competitive.

Another vital thing is that, if you instil status and real glory in forms of political leadership, there will be competition, but those things will be there only if you have the power to do things. You have to evoke a new civic agenda where there can be that form of experimentation and you can learn from that and there is democratic competition. I am completely with you that there has to be a cultural change. I am not with you in thinking that the private sector is very different. Certainly, in the corporate culture there is a massive amount of failure avoidance. That certainly came out in the banking sector in 2008. What we have here is a very similar problem in the public and private sectors. There is lack of leadership, acceptance of the necessity to learn from failure and genuine leadership

development within those institutions. Those are the things we have to address full on.

Q203 Heidi Alexander: We both know that at the moment local authorities and councils have to make huge savings. I would be grateful for your thoughts on whether in the use by local authorities of co-operatives, mutuals and social enterprises there is a tension in delivering services in that way with making savings from economies of scale.

Lord Glasman: I think this is a moment of great opportunity, because whereas you cannot redistribute money you can redistribute power. There has to be a reckoning and education going on: “The schools and hospitals are yours, and it is in your interests to be engaged with them, and you can affect them and run them.” For example, with schools I think the best Labour alternative would be a third for parents, a third for teachers and a third for funders; they negotiate that. If this agenda is just seen as worse or poorer services delivered by a different company structure, that would be wrong, but there is a direct interest in those services by people, so my hope is that opening up different forms of power structure and running them could be quite transformative of the situation.

Q204 Heidi Alexander: But do you think that in the shorter term it could cost more money to provide services in this way?

Lord Glasman: Yes, given the way it is going at the moment. I agree it is not a transformative model; it has not engaged people’s imagination. I think the co-op uptake is a trickle. As always, if there is systemic failure it costs more.

Q205 Heidi Alexander: Do you agree?

Phillip Blond: I think we already have systemic failure in so many of our outcomes. I think the potential for mutualisation is massive gain that can help mitigate the cuts. We know that, just on profitability, employee-owned companies have out-competed the FTSE 100 over the last 19 years by 11.5%. We know that creating more horizontal and co-operative structures is the most effective way to strip out bureaucracy. There is a medium-term outcome, which is that you can deliver genuinely—I am not saying this for ideological reasons—more for less. But I tend to think you are right, and that creating it and setting it up will cost time and money. The trouble is that we are not in a situation where we can leverage the savings from the medium term or long term to fund that shift. The great shame—I have written about it in public—is that all of the powers under the Localism Bill were enacted after local budgets were slashed. A time of crisis is a time to innovate, and we denied the local state the time and space to innovate in delivering those outcomes. I think that is a disaster for the Conservatives as well as anybody else.

There is no other route to the future we want than some form of involvement of users or recipients. Being more radical and visionary about the gains that could accrue to those users and recipients is how we might still gain from this crisis. If it is just a wider, weaker form of consultation where the council retains

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ultimate power, that would be very sad, but if it allows people to recover agency, use area-based budgeting and those sorts of thing to start genuinely to transform their areas in a holistic fashion, great good can come from it.

Q206 Heidi Alexander: Perhaps I may ask both of you about the downsides of this way of delivering public services. Is it better suited to some areas of service than others? Are there downsides in respect of staff terms and conditions? Should trade union members be worried about this? Should trade unions be worried? What are the negatives associated with this way of working?

Lord Glasman: The negatives would be that it would exclusively benefit middle-class people who are more motivated, and it would lead to the privatisation of services and a huge transfer of assets out of the public realm into the private realm, which will not come back. These have to be addressed full on. I have mentioned the way of dealing with the difference we have on the asset lock. I think the use of endowments and trusts is absolutely vital.

In relation to what Mr Morris said earlier, there is another aspect. I have been arguing for the endowment of regional banks so you cannot lend outside the county or city. Effectively, there are nine lending banks. In Germany I stopped counting at 3,000. We have to be thinking about whether we should use 5% of the bail-out to endow local banks so there could be access to capital. We have to think quite institutionally and strategically about what are the necessary conditions of success for people having more power over their lives, and the necessity of political leadership in that. There is a choice before you. You can watch the telly or you can get stuck in, and there are real advantages in getting stuck into it. Unless that argument can be made, whatever the model is we will go back to some form of technocratic elite running it.

Phillip Blond: The danger is that, unless we generate new ways to make sure recipients of services are capital owners in the model, essentially you will get employee or producer capture, and spin-out companies essentially will serve their own ends. I enjoyed UNISON's brief. There is a strong argument for doing nothing, but there are legitimate fears about the fragmentation of public services. Fragmentation is a genuine fear. If this is done badly, you could lose what is right about local authorities as centralising, localising points of accountability—that is what I like about local authorities—and it will fall in the middle. It will not deliver a new form of local accountability that will be vivid and shared in; it will just be like another form of privatisation. The greatest risk is that mutualisation, because it has not done well, radically falls into a form of subcontracting out. The trouble with subcontracting out is that it produces the very thing you are talking about, which is people saying, "I just want my bins emptied, and I can measure it like that." The trouble is that particularly for the most disadvantaged areas that is another nail in their coffin. It is fine if you are middle class and live in the Cotswolds because you are all right in other areas, but in the most disadvantaged areas that is another rung

of the ladder that is kicked away that can get them out of where they are.

Q207 David Heyes: I have got a council by-election going on in my constituency. Because of that I spent most of the last two weeks of the parliamentary recess out on the streets in the evenings and during the day with lots of other community people, not just from my party but the other main parties as well. I was out with entrepreneurs, leaders of community organisations, business leaders and trade union activists—in summary, community leaders. These people want to get that little bit of local power that the democratic process allows to make things happen in the local communities to begin to be able to address the concerns and aspirations of local people, but they are not a separate group from the people who would lead the mutuals and co-operatives. I just wonder whether this move towards greater use of co-operatives and mutuals serves to undermine the basis of local democracy.

Phillip Blond: Modern democracy is already failing and is in crisis. If you look at the proportion of people who vote in certain council wards in Liverpool, it even drops below 10%. This is not a healthy model. You may think everything is okay, that the levels of local participation are fine and that the council is great, if only the Government would get off its back. By the way, I wrote a piece with Graham Allen on creating a new constitutional settlement for local government. I fully support that move, because I think local government has to have as complete autonomy as it can have in tax-raising powers. I am not opposed to it; I do not want a neutered council. But this is a broken model and pathway. The arteries of local democracy are blocked, and simply arguing for it fails to see the problem. The problem is that representational democracy—I apologise for repetition—has helped remove participative democracy, and the two are not in conflict. Until you can create a representative model that supports a participative model, local accountability will continue to be dictated by about 10% or 20% of the electorate.

Lord Glasman: I am much closer than you can imagine to those concerns. In reply, I would say two things. There is leadership development within unions, and the development of local leaders in the management of the institutions they work in has to be a vital part of this. My answer to you is that I work with those people in lots of different areas; that is what I love about Labour politics. It is to get more of those people engaged in leadership and powerful roles. To do that there has to be genuine power, but there has to be engagement with what people want and the changes necessary. There has to be a negotiation between the work force, users and the funders to make the world a better place. I think this is absolutely traditional Labour politics.

Q208 Simon Danczuk: The Government have introduced a community right to challenge in their Localism Bill. How do you think that will impact on the delivery of local services?

Phillip Blond: Community right to challenge is one of the things ResPublica and I argued for. I think the

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rationale for it, which remains, is that we have got to move from an income supplementation stage—just giving small amounts of money to poor people—to one that generates a capital effect. The gain from a right to challenge is massive. The Government have also just awarded contracts. I think the contract to facilitate the right to challenge has gone to Locality, so at least they have learned that they need to provide a platform for this to work. The real advantage of the right to challenge will not come from just picking up one service and saying, “The bins are awful.” It will come from a neighbourhood or area-based approach, particularly in disadvantaged areas, where the Government’s area-based commissioning, neighbourhood budgets, the pilots that are now running along those lines, come together and you get a whole neighbourhood saying, “We’re going to take over all of the budget spent in our area.” Then I think you have the opportunity for multiplier impact that genuinely transforms the social and economic outcomes in an area. If it is not like that and is where we are now, what I think we will see happening is community groups challenging for specific services. Community groups are already empowered and together. They are perhaps already using the community right to buy. What will then happen is the rise of what Maurice often talks about: effective leadership and community organisations in a community. That is good. Those are the two outcomes, but the really radical outcome that can transform things for those at the very bottom will be the area-based capture of all of the services in that area.

In order for that to work—colleagues have already flagged this—we need some form of capacity generator where people in those areas can try to manage and create their services. That is another role that local authorities can help perform. That is the hope.

Q209 Simon Danczuk: Lord Glasman, what do you think of Locality delivering these contracts?

Lord Glasman: I have said things about Locality. I do not think they were the best people to get the bid because they come from the settlement. They are not organised. Their origins lie much more in providing education and help to poor people than developing poor people as leaders. I regret the polemical terms I used in the initial response, namely that they were dogooders allowed out.

Q210 Simon Danczuk: Feel free to repeat your previous remarks.

Lord Glasman: I am sorry I ever said that. I would go as far as to say that I respect what they do, but I am not quite there. It is a question of organising. This is where I am from. Developing local leaders is a bloody and brutal process that involves very specific skills, agitation, scratching at things, moving people along and dropping people in it and seeing how they do. Therefore, I am sceptical about this because it is still not political.

I give you one example of something on which I am working and you can look at it. It has to be political. Take the privatisation of Dover port. The Government

are the freeholder but it is leased to the Dover Harbour Board. The idea is that this will be sold, as part of the deficit reduction, and the bidder at the moment is a French company. For me, the idea that the French buy Dover is a real organising event. I do not think that will be covered by a right to object. You actively organise, you raise the resentments of local people, you get stuck in, and this is where you have the model. You say, “A third of the governance of Dover port is for the funders; a third is for the workers; and a third is for the people of Dover, because Dover port is for ever England and you cannot sell that off to the French—are you crazy?” It is a matter of getting this stuff into the political realm and starting to organise politically. It is not just about a right to challenge; it is about actively developing leaders who will take on the action and restore power to local places.

Q211 Simon Danczuk: I get that completely. Very briefly, do you not think that this right to challenge is a stepping stone to privatisation of services?

Phillip Blond: I have already said I think that it is a disaster if the co-operative movement slides into just out-sourcing and privatisation. There is a third way, which is a dubious thing to say in politics. Between nationalisation and privatisation there is mutualisation. If you are interested in making a difference to those who most need it, that is the path we have to take. I do not like Saul Alinsky’s work; I do not think it is the only way to go, but I appreciate a black box approach. Let’s have multiple, different approaches and see what works. Alinsky is not the only way to be political; it is a very poor way to be political, but let’s have different varieties. To be fair, that is the option the Government have now created. We should embrace that and wait and see what happens. The most important thing is to create a vision of what we want. It would be useful if this Committee had a very broad vision. What would you like to see? Then we can try to use all of these powers and activities to try to realise that.

Lord Glasman: I reiterate the fundamental point that there has to be a balance of interest always in the governance of these things that includes workers, users and funders and work it out from there, whatever the scale, to go back to the earlier point. There has to be the use of trusts and endowment in that. That is the only way it does not just spin off into privatisation, so, as opposed to any form of unilateral sovereignty of a single-interest money stake, there has to be a balance of power in governance.

Q212 Bob Blackman: To put a point of clarification, I have listened to your evidence with quite a lot of interest. There seems to be a misnomer here. As I understand it, Lord Glasman, you are talking about taking people from the community and developing them potentially into leaders. To me, that would mean they are coming on as councillors to act as representatives, but here we are talking about running services for the benefit of the whole local community. That seems to be a bit of a difference in the approach. Can you help me with that particular issue?

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Lord Glasman: The way I view it is that there used to be two fundamental schools. I apologise to non-Labour Members. There used to be the union and the council. You developed through that, but the third part of that was to do with leadership roles in the co-operative movement. That was to do with the burial societies and the shops. The idea that you have a leadership role that does not involve running things is part of the disempowerment; you are accountable and you do not do that. This relates back to failure and the necessity of learning. There has to be a pathway for local leaders whereby they have some power. That is the key, whether they are councillors or whether they are negotiating the strategy for the delivery of services.

Q213 Bob Blackman: Forgive me. That is clearly a representative role with service users saying, “We want a service to be delivered in this particular way for this particular benefit,” but that is not running and delivering it, which is what we are looking at here in terms of mutuals or co-operative councils.

Lord Glasman: What I am arguing is that the actual leadership role always involves a negotiation of the complexity of that delivery. That delivery is absolutely fundamental to it. That delivery always involves an engagement with users and what people want; it involves negotiation with workers—how it is going to be delivered.

Q214 Bob Blackman: I agree with all of that. The issue is, are those people coming from the community, or is it a council or local authority or public sector body being mutualised?

Lord Glasman: The final thing is that in the development of the strategy you employ people to implement it, but in terms of the corporate governance board there has to be that balance and understanding of the details of those things.

Q215 Bob Blackman: Mr Blond, I want to ask you a separate question. In my experience, one of the problems with local authorities and the reason people are not interested in the way they work is that they consult people on delivering a service or doing something. People say, “We don’t want that. We don’t like it.” The council says, “We’re still going to do it.” Is that not the big barrier to people participating and taking a local authority seriously?

Phillip Blond: The great barrier is that even when people want to make a difference and express it they cannot do so. Where I disagree with Maurice is that for me mutualisation skills up everybody, not just

leaders. The trouble is that, if you have just leaders, the existing power structure tends to remain, but you are just new entrants within it. What I am interested in is changing the whole dispensation. The whole dispensation needs systemic change; it needs a new account of how all actors act. Small groups now have the capacity to deliver what previously only very large organisations and groups could deliver. New technology and the type of resources now at play enable us to do that. If you look at successful small and medium-sized enterprises, they utilise that, but we have not done that in politics. It seems to me that is the step we need to take to become a 21st century country. We need to allow people to make a difference in areas very close to their hearts, and we can do that. For instance, everywhere you go—I am sure you have experienced this—everyone talks about the bus services being at the wrong time. It is a very easy and simple thing to create ways in which users can change their bus services. We know, for instance, that we have an ongoing pensions crisis. We know that if people were able to self-advise and cut out those who managed their pensions, the value of those pensions would be roughly a third greater. These are all benefits from association that we know in many other areas, but we have yet to utilise all of these teachings to change the way we associate at the most local level. People want to make a difference. All I suggest to you is that mutualisation is one of the ways in which that can be delivered.

Q216 Chair: Phillip, you said that the Government were basically on the right track with some of these issues; Maurice had some reservations. Could you give some very succinct, brief advice to Government about two things they could be doing but are not doing now to improve this? Each of you has 30 seconds.

Phillip Blond: Realise that the state is not all bad, and the failure to think of a state in a new productive model is one of the reasons big society fell through the cracks. If we can think of a state under a new and radicalised model, we can deliver the settlement that the Localism Bill and all that is right in the Government’s big society and social enterprise agenda want.

Lord Glasman: England one, France nil. I have been rapidly scribbling. I would say to them: do not be afraid of tension and failure, and pursue a common good.

Chair: Therefore, do not be afraid of the *Daily Mail* either when it picks this up. It has been a really interesting session. Thank you for giving us advice on those points.

Monday 18 June 2012

Members present:

Mr Clive Betts (Chair)

Heidi Alexander
Bob Blackman
Simon Danczuk
Bill Esterson
Stephen Gilbert

David Heyes
George Hollingbery
James Morris
Mark Pawsey
Heather Wheeler

Examination of Witnesses

Witnesses: **Ed Mayo**, Secretary General, Co-operatives UK, **Paul Nowak**, Head of Organisation and Services, TUC, and **Simon Randall CBE**, Consultant, Winckworth Sherwood LLP, gave evidence.

Q217 Chair: May I welcome you all to the fourth evidence session in our inquiry into the Co-operative Council? Thank you very much for coming and for the evidence you have given us so far. For the sake of our records, could you say who you are and the organisation you represent?

Paul Nowak: I am Paul Nowak, head of organisation at the TUC.

Ed Mayo: I am Ed Mayo, secretary general of Co-operatives UK.

Simon Randall: I am Simon Randall, a consultant with Winckworth Sherwood.

Q218 Chair: You are all welcome. If you agree with what someone said, just saying that you agree with it is probably sufficient, so we can get through as many of the issues as possible in the allocated time. This is our fourth evidence session. We have had quite a few witnesses so far. One thing we have been trying to grapple with is the whole issue of co-operatives and mutuals and what a co-operative council entails. Looking from a distance, do you think the Government themselves have a coherent policy on what role co-operatives and mutuals could play in service delivery in the public sector?

Simon Randall: The Government's policy is set out in the coalition agreement, which was that co-ops, mutuals and local organisations should be encouraged to take over public services. The particular area on which they are perhaps homing in at the moment is local government with the Right to Challenge under the Localism Act, which comes into force on 27 June. I think that is the area in which the Government are most interested. This is probably another question. More work needs to be done to inform people as to the opportunity for co-ops, particularly poly-co-operatives, to take over public services, and clearly there are a number of things the Government will have to do to encourage staff co-ops and local organisations that are mutuals to take over public services.

Ed Mayo: I start with an apology, but I did not hear the middle bit of your question.

Q219 Chair: To what extent do the Government have a strategy about the role that mutuals and co-operatives can play in the delivery of public services?

Ed Mayo: Thank you very much. I did not want to answer the wrong question. I think the Government

have a plan for developing a strategy in public services to a greater extent than in the private sector. The coalition agreement did also include a commitment to encouraging diversity of organisational form in financial services, which is another area. What we have seen is the identification of the key barriers to, particularly with spin-outs, encouraging existing public services to be run as mutuals. The Committee had evidence from Julian Le Grand at a past meeting. I think that much of the work that the Mutuals Taskforce in the Cabinet Office has been identifying some of the barriers to taking this forward. Evidence to date is quite small-scale in terms of practice, with the exception of one or two areas; education is a key one. We have some of the building blocks in place. We do not have a comprehensive strategy, because I do not believe we have yet got a credible set of targets in terms of what rolling this out might look like.

Paul Nowak: From the TUC's point of view, we are very clear that the Government have got a strategy, or certainly a direction of travel, in terms of public service reform, which is to open up our public services to a wider variety of providers. Co-operatives and mutuals are supposed to play a large part in that. Our fear is that that marketisation will open up more opportunities for the private sector. The evidence to date is limited, but some of the initiatives that we have seen taken forward under the banner of mutuals and co-operatives suggest that that is the case.

Q220 Chair: Mention has been made of the Mutuals Taskforce. We had evidence from Julian Le Grand at a previous hearing. Do you think the taskforce's remit—this is a point we put to him—is quite narrowly focused and it is really just about spinning off from existing public services an element that then can be turned into a worker's co-operative, and it is almost that and that alone with which the taskforce is charged?

Ed Mayo: I declare an interest as a member of the Mutuals Taskforce. I think you got an indication from Julian as to the timing of the next report of the taskforce following the evidence work that has taken place. To agree with the essence of your comment, the Government have focused on an employee-owned model and the spin-off of existing services. In some of the evidence and discussions the Committee may have had you are looking at other models as well. The

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idea of co-production, which is an ugly word, is about a partnership between the people who provide services and those who use them, so at the moment the focus is relatively narrow.

There is a long history of different models of public services, as Paul was saying, and a number of those have gone under the title of mutuals. Foundation trusts have described themselves as mutuals. MUTUO, which is a think tank in the field—with that kind of name, it would have to be—describes foundation trusts as mutuals, but that is a long way either from the more direct ownership and democracy of bona fide co-operatives or from the kind of employee-ownership model of spin-outs that the Government are currently looking at. Therefore, there is a wider public service mutuals agenda that is the focus of government at the moment, even if you can see a good deal of sense in exploring the productivity gains that could come from an employee-owned model.

Paul Nowak: I would echo the comment about the focus being more on the spin-off of existing public services than, for example, co-operative ways of working and how government staff deliver public services and communities work together to improve services and their delivery.

I should make one other point about the Mutuals Taskforce. The TUC and its affiliated unions did make the point to Francis Maude at the public services forum that it was unfortunate that, particularly with the focus on employee ownership, the one group excluded from the taskforce in a meaningful way were representatives of employees. We represent 4 million people who deliver public services. Some of those work directly in the public sector; some work for private sector companies; and some work for mutuals and social enterprises. We thought the voice of the workforce needed to be heard a bit louder in that taskforce.

Simon Randall: I think the emphasis could have been more on community benefit organisations. The area that particularly excites me is the way the community can be involved in running public services. There are numerous examples that have been going for years: housing and health co-operatives. I have been involved in a slightly unusual one: Dover People's Port. That has been set up by the community, hopefully to take over Dover port. It has just had its 1,000th member. That kind of operation, which involves very much a mutual, with all the assets being held by the community and all the surpluses being reinvested back in the business, could perhaps have been incorporated in the Mutuals Taskforce as well.

Q221 Simon Danczuk: Paul, are the unions unwilling to embrace any change towards greater use of mutuals or co-operatives?

Paul Nowak: That is not the case at all. We do represent people already working for co-operatives and mutual organisations, in both the public and private sectors. I think it is fair to say that the preference of our unions is for public services to be delivered directly by the public sector, but we are engaged in supporting members and initiatives where the workforce are on board, engaged and supportive of those moves and proposals. One of our frustrations

is that, where something is supposed to be a focus on employee engagement and ownership, quite often mutualisation is being done to staff, rather than actively engaging them. If the Government are serious about extending that co-operative model, they need to think about ways of positively engaging staff and listening to their views and concerns. We do not think that the Government are doing that at the moment.

Q222 Simon Danczuk: To all three panellists, is there any evidence about the impact on staff transferring into mutuals and co-operatives?

Ed Mayo: I think, as the evidence you had from Julian Le Grand at a previous session suggested, the majority of evidence came from the private sector. Co-operatives are independent businesses. We are of the private sector in that sense. We are a social ownership; we are co-operatively owned; but that is where the evidence base is. The spin-outs that we have seen that are high performers, as may have been mentioned before, are those that have emerged and survived. They have a good story to tell, but they are relatively small in number and therefore the evidence may be relatively anecdotal.

What we do know, which is the flip side of it, is the shockingly low levels of staff engagement across current public services. We have now had almost three years of the consistent people survey across different Government Departments and the like. While those results are subject to intelligent statistical presentation, what emerges for me is that there is a very significant problem in terms of low levels of staff engagement. It is a tough time for anybody working in public services with the limits and cuts we are seeing. That does not make it easy to pursue a mutuals agenda; indeed, some people would see the mutuals agenda as a way of delivering those cuts, which does not make it any easier to achieve, but while the evidence on the positive is relatively weak, the idea that there is something to be done is, I think, a strong one.

Paul Nowak: Our unions have real concerns about the impact on employment and jobs, quality of employment and pay, terms and conditions. The Committee will have seen that from the evidence of UNISON and Unite in particular. A lot of that evidence is driven by their experience of outsourcing more broadly, partly because, as Ed says, there are limited numbers of examples to draw from in the public sector at the moment. What is particularly worrying for staff is that this is being done in an area where budgets are already under pressure. There is a danger that these initiatives are seen as part of a broader cost-cutting exercise. Clearly, staff are not confident that this is being done in a way that their voices are being listened to and they have been properly engaged. One example is the Audit Commission and DA Partnership. There is a sense that staff feel, "Where's the security in the longer term?" You set up a mutual organisation, you lose contracts, and effectively that organisation has now been folded into the private sector.

Simon Randall: About two years a report was produced by Professor Lampel on behalf of the

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Employee Ownership Association.¹ It reported that employee-owned organisations created jobs faster, were more resilient and had similar other advantages. I have done a survey of quite a number of charitable leisure trusts where there is a large involvement of staff in the running and management of the service and in decision-making, and that reflected some of those particular issues. I think there is some evidence that employee-owned bodies are more resilient and create more jobs. However, I accept both of the comments made by the two previous speakers that we are in a time of austerity, so perhaps if that 2010 survey was being done now it might not be quite so rosy.

Q223 Simon Danczuk: UNISON, in its submission, made a point about mutuals and co-operatives causing the potential for fragmentation of local service delivery. The impression I am getting is that there is very little evidence for any of this; they are just guessing at what might happen. Am I right in saying that?

Paul Nowak: To take that example and maybe talk about sustainability, one of the experiences of unions is the deregulation of passenger transport executives back in the 1980s, when large numbers of employee-owned organisations were set up. None of those exists any longer; they have all been subsumed within the private sector. You had that initial fragmentation and then consolidation, but it was consolidation of private sector organisations, rather than the longer-term sustainability of employee-owned organisations.

Ed Mayo: I think this is a real issue. I alluded earlier to a history of experimentation in different models of delivering public services. You might trace that back to Sir Robin Ibbes in the 1980s. He developed a model of public services being delivered through agencies. The idea was that these agencies would have a focus on operational delivery and would be able to get on with that, aside from everything else that was going on. It is probably a consistent tussle between large and small, focused and integrated, and many of the changes that we see from time to time over public service, in the NHS or elsewhere, reflect that kind of underlying tussle. There is unquestionably an issue about how public services and those agencies that are there to deliver them deal with complex issues that have multiple dimensions and causes. Do they collaborate in order to be able to see change? We know that can happen positively and negatively. Some of the frameworks for it around integrated budgeting, local authorities and the like are important in making that more or less likely, but there are probably different ways to skin a cat. In Wales, there is, I believe, still a duty to co-operate, which applies essentially to statutory services. Wales has not gone down this kind of route, with the exception of some very positive mutual examples in housing.

I will come back, if I have an opportunity, Chair, to brief the Committee on the success of the co-operative trust schools and academies in England. One of the things we see is that the co-operative element brings a culture that is very open to co-operation with other parts of the education sector. In a sector that is

probably very concerned about issues around marketisation and competing when dealing with outcomes for children, co-operative schools are collaborating to be able to build in an integrated way, while at the same time operating on an individual agency basis.

Q224 James Morris: I am getting slightly confused by terms. Mr Nowak, you said you were concerned that when mutuals were set up there was a low level of employee engagement. How can a mutual be set up and a co-operative created without there being high levels of employee engagement? Who is making that decision?

Paul Nowak: There is a very clear example in the civil service. MyCSP, which administers civil service pensions, is a mutual joint venture between the Government, a degree of employee ownership and a private sector organisation. Staff delivering that service were overwhelmingly opposed to the mutualisation. The exact figure was 94%. They said they did not feel they were empowered as a result of the mutualisation of MyCSP. They have got very real concerns about the transfer, but that mutualisation was effectively done to staff without the active involvement and support of staff.

Q225 David Heyes: This is more on the issue of language. Ed, you used the phrase confidently “bona fide co-operatives”. By inference, you have a clear idea in your mind of what a co-operative is. From what your colleagues on the panel have said and from other evidence we have had, I doubt that your view would be shared by the Government or local authorities separately. How damaging is the failure to have a shared view of what this terminology means?

Ed Mayo: How damaging that loose terminology is is a very good question. I am not sure I have got a full answer. Certainly, there is an international definition of what is a co-operative enterprise. There are clear quality standards. Those principles include independence, which includes independence from the state. Over the history of the co-operative sector, there have been examples of state-sponsored enterprises, and they have always been rejected by the International Co-operative Alliance, which oversees those principles. We have a very clear way of identifying what is and is not a co-operative, and we are seen as a guardian of that within the UK.

“Mutuality” is a more ambiguous term, but even with that I find myself at odds with the approach of the Government, which stretches the boundaries of mutuality to include minority employee ownership. My view is not that everything has to be run as a co-operative. I think that everything can benefit by being run more co-operatively, but the co-operative sector certainly would have concerns about the misuse of some of the terms. I think the lack of clarity referred to earlier does not make this easier.

If that was not enough, we then have the wonderful world of wider social enterprise, which is an entirely inclusive term. If you want to be a social entrepreneur you can be; no doubt, you have three social entrepreneurs on the bench in front of you, but it is a feel-good term that you can opt into. This does not

¹ www.employeeownership.co.uk/publications

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necessarily make it easier for those who are working within public services and who, if they are going to look at something like this, want it to be simple and straightforward. In answer to your question, there are significant issues around definitions, but it is not that one is pure and another is not, and from the co-operative business sector, we do have concerns about some of the potential abuses and uses of the term “co-operative”.

Simon Randall: I think people assume that the word “co-operative” is a staff-owned organisation, but a lot of co-operatives operating in the UK are not necessarily owned by the staff. They may well have staff involvement, like all the co-operative shops around. There is a co-op shop with which I am involved in Gloucestershire, and here is my membership card. The staff are members of that, but so are all the community. We had been told, “You use it or you lose it.” Local pubs are also owned by co-ops, and by the people living in the area. You have got a telephone co-op; it is one that is based in the Prime Minister’s constituency. There are also wind farm co-ops. So co-ops cover virtually every aspect of society today, and they are not necessarily all staff-owned. The way I look at co-operatives is that people form an organisation for the benefit of the community and abide by the seven Rochdale principles. I think that is quite possible. The staff will be involved but may not necessarily own the organisation by virtue of the shareholding.

Paul Nowak: I would echo that point. The only other additional point I would make is that, to be successful and to be good at doing what they are supposed to do, any form of organisation—co-operative and mutual organisations in particular—needs effective employee engagement, whether or not it is wholly staff-owned. It is very hard to engage staff if they have not even been supportive of the initial decision to form the co-operative organisation. I think this flags up the need for staff to be better informed and engaged and for there to be a sense that they are genuinely proud of, and want to be involved in, these new forms of organisation, rather than it being done to them.

Ed Mayo: While we are talking about terminology, I cannot think of a single example of a co-operative that has not been formed with that form of staff engagement. Is it co-operatives or the wider mutual sphere?

Paul Nowak: I was raising a concern in particular about mutuals and mutual joint ventures.

Q226 David Heyes: A way through the problem of the inexactitude of the terminology would be to have a new legalised form of company model that would encompass all these ideas. That was the suggestion made to us last week by Phillip Blond.

Simon Randall: I believe that the whole legislation for co-operatives needs to be looked at. It is out of date, old-fashioned and very difficult to operate. Let me give you just one example. If you set up an industrial provident society as a co-operative, you could change the rules today. They are not valid until they are registered in five or six weeks’ time. If you set up a co-operative as a company and change the memorandum and articles today, they are valid today.

That is one simple change. There are numerous other changes. Therefore, if this Committee were able to say that we need not only a co-operatives Bill to consolidate, but one to update co-operatives, in the same way that companies legislation has been updated, and if you can find a new name—I have been wracking my brains for a name—your Committee’s deliberations will go down for posterity.

Q227 Chair: There’s a challenge. We can probably come up with several names, if that helps.

Ed Mayo: I agree with part of that and disagree with part of that. I agree there has been a neglect of some of the legal models that are open to co-operatives, which has meant you get some of the anomalies that Simon has talked about. The commitment made by the coalition Government in January to bring forward consolidated legislation for co-operatives and societies is a very welcome step. It has taken 17 different bits of legislation and brought them down, through the Law Commission, into one modern form. But I believe there has been a persistent mistake over time by successive Governments in thinking that the whole field of different forms of business is very complicated and they should introduce another corporate form that will make it simple. The answer is the opposite: it makes it more complicated.

You can form co-operatives of limited liability partnerships; you can form them as share companies, guarantee companies and societies, which is the most traditional one because it has the co-operative elements baked into it, but you also have community interest companies. Community interest companies, introduced by the last Government, are widely seen as a success, but the numbers are still quite low. The dissolution rate of community interest companies is pretty high, if you look at the regulator’s figures. Would it help if we had a ResPublica company, to call it that? I will tease Phillip Blond about this. Will it necessarily make a difference? I would rather look at the existing corporate forms we have and introduce the flexibilities that would be needed, rather than assume that a partnership company, mutual company or the like is necessarily the answer. I agree with the need for a spring clean and for consistent reform. I do not personally go for the magic bullet of a new company form being the answer.

Paul Nowak: I have less expertise than my colleagues. In terms of whether or not you should have a new legal form, I think the Government should have very clear guidance and guidelines in place, so that, for example, if you are setting up any form of employee mutual, there needs to be clear and explicit evidence that the workforce are engaged in and supportive of that process, and that you have things like asset locks to make sure that assets that have been built up in communities over decades are not lost to the private sector, particularly if a mutual or co-operative fails. Colleagues have referred to adherence to the seven principles of co-operation. That is a practical guidance that is absent at the moment and would be good for all concerned: public bodies, staff, communities and service users.

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Q228 David Heyes: Would that be a route to addressing your concern about tokenism and the fact there is not genuine employee involvement or power within these new structures? Could that not be incorporated into a new legal structure?

Paul Nowak: Yes, absolutely; I think it has that potential.

Q229 George Hollingbery: Ed, you were asking for an opportunity to give evidence of successes in the public sector. Let's hear them.

Ed Mayo: Thank you very much. The model of co-operative schools has emerged over the last five or 10 years and is growing very rapidly. On evidence and data I have got from the Co-operative College over the last few days, we believe there are more co-operative schools in England than there are wider mutual spin-offs. There were due to be about 300 co-operative trusts, academies and one free school as well to emerge by the end of July. This is a different model from the one that the Mutuels Taskforce is looking at. I am not arguing that it is better; I think this is about horses for courses, but with schools the co-operative model allows them to have the freedoms that come with, for example, trust or academy status, but the governance model of co-operatives enfranchises the different groups involved in and around the school, so teachers, parents, children and community groups can be members within the co-operative and have a role through the trust school in overseeing the work of the school itself.

The co-operative values are very much welcomed by the teaching profession, because they have a very close ethical fit with why they went into teaching in the first place, and co-operative schools have all come through with an explicit process that has been endorsed by the relevant trade unions. It is one area that shows that the users and providers of public services can work together. Ultimately, the biggest question for the employee-owned model is: does it mean that public services are run in the interests of staff rather than users? That is a legitimate question, particularly where you do not have a competitive market, but in many cases you can do it in partnership.

Q230 George Hollingbery: It is probably a little early yet, but are they more successful than your bog-standard school?

Ed Mayo: It is too early, I am sorry to say, but we have very positive evidence from Ofsted inspections, for example, that talk about the changes in culture and the positive changes that can come with schools going down this kind of road. I have been into co-operative schools and ones where you feel that kind of ethos when you walk in. It is a success story. Funnily enough, it does not quite fit the Government's stated objectives, but I think it fits the spirit of what the Government are trying to do extraordinarily well.

Q231 George Hollingbery: You said that the evidence is thin elsewhere in the public sector, with lots of examples in the private sector, which is more your bailiwick, but is there something in that model that is particularly applicable to schools that local authorities should be looking at and learning from that

could allow them to use it elsewhere in public services to create the same sort of effect?

Ed Mayo: I do believe there is. I think it is down to what Paul has been talking about in terms of engagement, but it is engagement of not just staff, as important as that is, but also parents and children. The idea of using that co-operative model is that the whole community is involved when you are talking about children's education and development. It is a model that brings that to bear and gives a permission slip for it to work in that kind of way. I think the best schools are learning, for example, that it makes sense to listen to children and for children to have a voice in terms of the school, but also to have limits. We are not talking about child-owned schools, but giving them a voice and participation is good for children's interests and involvement. The heart of the model is that it gives a permission slip for those who are in and around the school to take part in it.

Q232 George Hollingbery: Can you describe for me what you would see as an acceptable and welcome sort of mutualisation and co-operative type working in local government? Are there any examples out there where you can show that the benefits have really accrued?

Paul Nowak: There are no practical on-the-ground examples I can point to where benefits have really accrued. We feel there are lots of examples where some of the limitations of the model have been exposed. If you look at what has happened in Central Surrey Health, for example—a mutual joint venture—it has lost its contracts to Virgin Care. There are some real issues there about sustainability, length of contracts and those sorts of issues. I am all in favour of a co-operative way of working and thinking about how you better engage staff, but also how you better make the link between people who use our public services and those who deliver them. I am just not so convinced that that is a direct outcome of a particular ownership model. There is a danger that we could spend a lot of time restructuring, reorganising and spinning off public services for a particular ownership model and missing the real opportunity, which is reconfiguring the way staff, service users and those who commission services work together. When an authority goes down the road of mutualisation or a co-operative, some of the key safeguards I talked about in terms of evidence of staff engagement, asset locks, clear governance principles and accountability to the local community are important. I have no positive examples to bring to the Committee at the moment.

Q233 George Hollingbery: Simon, can I ask the same question about evidence of success in a local authority but add: is there any reason to believe that cost savings are a reasonable expectation from mutualisation or a co-operative delivery of local services?

Simon Randall: To deal with the first point, in relation to co-op schools, the Conservative Co-operative Movement published a pamphlet about various co-ops. We had a particular page on co-operative schools. We found some evidence—this was an article from the

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Co-operative College—that co-op schools did perform well. One of the main reasons they perform well is that parents can become members of the co-op. They have a share in the organisation, as indeed the pupils do. I suppose they have to be 16 or 18 to do that. That therefore gives them very much a say in how the school runs, directly as a shareholder.

I think the same is true in housing co-operatives. There are now large numbers of housing co-operatives that are supported by specialist organisations. They are also successful in taking over housing and helping local authorities provide housing in their area. Certainly, the experience my firm and team have gained in terms of leisure trusts and heritage trusts is that, while they may not be staff-owned, they have huge staff involvement by virtue of the fact that the transfer took place with their support, consent and wholehearted enthusiasm. There is evidence that they are able to run a tight ship, employ more people, have lower sickness levels and perform well. I appreciate that that may not be so in 100% of cases, but there is that evidence.

Co-operative schools and housing co-ops should, I think, be provided as evidence for the Government in putting forward a programme when the Right to Challenge comes into force on 27 June, because at the moment there is very little paperwork around as to how employees, for example, exercise that right. There is very little information as to how parish councils could exercise that right, and very little information for all other local organisations. That is where I see the co-operative mutual venture working so well on the community level as far as concerns the localism agenda. There is some evidence of that, and it is something the Government need to provide by way of assistance to those who want to exercise those rights.

Ed Mayo: I just want to add to something Paul said about Central Surrey Health. Central Surrey Health are going through a commissioning process at the moment, and that runs through to the end of this year. I think Paul was not implying they were losing their contract for central Surrey but there has been competition for other parts of Surrey.

Paul Nowak: Perhaps can I pick up the second part of your question about whether one can deliver these new forms in a way that effectively allows you to cut cost? I think the evidence provided by Association for Public Service Excellence (APSE) and by Co-operatives UK is that, if you want to make this work, you need to invest upfront, and that may mean more costs in the short term in building the capacity of staff and of the organisation to work in a new way. This goes back to some of the reasons why staff may be nervous about these developments. If you see this through the prism of a way to cut costs in the short term, that is entirely the wrong way to look at it. It is not a sustainable way forward if you are serious about developing successful mutuals and co-operatives.

Ed Mayo: Briefly, a key aspect of public services at a time of changing finances of public services is: where does the boundary stop? As a citizen, where do my rights stop and my responsibilities start? Co-operative mutual models are all about taking on responsibility, but the question is: what should the state be doing and

what should individuals be doing? Often, it is not clear where that boundary is, or somebody else decides it, or it is decided in a committee room further away. One matter that is absent in the current work around public services is an open, participative process that says, “Well, the state will do this, but communities need to do that.” We are in a time of cuts, so any public service transformation will be in that context, but the fear is that there is a passing over of responsibility when in other ways that is exactly what you want. For me, it is a question of where the boundaries of public services lie. In a number of areas, health being a classic example, it has been seen as a Pandora’s box; nobody has really ever wanted to say what your rights are or are not under the NHS, because it seems to open too difficult a conversation.

Q234 Chair: Let me pick up the issue about who are the users and whether some services are more amenable to the model you have outlined, where employees, users and community are involved. For the school it is fairly obvious who the users are; for a planning service it may not be, because people probably use it once every so often. For a hospital, it may be that people want to cease to be users as soon as possible; that is their objective, so they are not going to get engaged in the same way. In terms of the community, are there not real problems about defining who the community is and proper accountability? The council have a role there somewhere at local level, but if they have a role, does that disqualify the organisation from being a co-operative in the true sense of the word?

Ed Mayo: It works best where you have relationships that can be long-term. There is another old saying that mutuality grows where money flows. If there is money changing hands, the mutual model may work well. Simon talked about leisure trusts pioneered by Greenwich Leisure. In a co-operative, mutual or social enterprise money changes hands there. Simon talked about housing. Co-operative and mutual housing is now a minority arena, but it has the advantage that tenants are in control. They are not housing associations that are accountable in a slightly opaque way. Co-operative and mutual housing has tenants directly involved, so where you have a long-term service relationship the services need to be consumed individually, not collectively. You could not mutualise environmental health, because, as in your example of planning, it is a more intermittent service. I think that, on the user’s side, those are the kinds of areas that work best. Often, we are talking about local services, which is where the local authority agenda comes in in a very interesting way.

In terms of accountability, the democratic model of co-operatives and open membership is seen as one of its strengths. There is an issue about accountability with privatisation and different agencies running around delivering services. How accountability works is very important. Local authorities have to have a backstop role, but often that is implemented through quite a complex set of contracts that can be quite difficult to unravel. Co-operatives are essentially a community or club approach, but they should not, in my view, be playing the same role as a local authority,

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which has the ultimate democratic legitimacy and mandate as a backstop for these kinds of services.

Simon Randall: Of course, the local authority in the Right to Challenge approach will be the client, effectively, commissioning the service from the staff co-op that comes out of the local authority's aegis. The local authority will have its stake in ensuring that the service is being provided in accordance with whatever KPIs (key performance indicators) or performance it expects. That is how the local authority would be involved.

Paul Nowak: I would have some concerns about how the Right to Challenge is going to play out practically. I would not rule out the private sector seizing on this opportunity as well. All they require are two employees, plus an external agency, and they can also challenge. We have real concerns about the whole agenda being an opportunity that effectively opens the door for the private sector, rather than for the development of genuine mutuals or co-operative organisations.

Q235 Mark Pawsey: Can I follow up with some points about engagement of the public. You have these three groups of people: employees, users and the community. It is clearly easy to engage users, because they are recipients of the service on a regular basis. How does a mutual or co-operative approach make it easier to engage the community more broadly, not just the users?

Ed Mayo: To give an example of co-operative schools, the community groups, which are often important organisations at community level, have their own membership category in many co-operative schools. You have a service relationship with users, and often with ex-users as well, but, if you are reaching out to the wider community, it may be faith groups, local boy scouts or the like that are able to bring that wider perspective. You are always looking for the kinds of organisations that can be reflective of the diversity of local communities.

Q236 Mark Pawsey: But everybody benefits if the schools are better. Those attending the school and the parents are the most directly involved, so they are going to become engaged. Does a mutual approach make it easier to engage those people who have a much broader benefit, rather than a specific one?

Ed Mayo: I can report only on the experience of co-operative schools over the last few years, which is that the community side has been seen as a real strength, because it seemed to embed the school within a wider set of local relationships. There is good will there. Increasingly, schools are also being seen as assets for out-of-hours community use and the like. The experience has been that it is possible to tap into that wider community, but you need to do it in some ways through organisations and people that are representative of that wider community, rather than in some quasi-democratic way.

Q237 Mark Pawsey: Is that the view of the other witnesses? Does it make it easier to engage if the body supplying the service has a co-operative approach, or does it not make any difference? Are there still people

who will be indifferent to the nature of the organisation that is delivering the service?

Simon Randall: I can give a classic example. I mention Dover again. Dover People's Port has bid for Dover port. We believe that a community-owned organisation, which is charitable, with an asset lock, will get much more enthusiasm from the people of Dover for the regeneration and improvement of the area than if Dover port were sold to a private sector-owned organisation on the other side of the channel.

Q238 Mark Pawsey: That might engage people, but will it give an overall better result?

Simon Randall: I think it will give an overall better result because it is owned, and can only be owned, by the people who live and work in the area. That therefore dictates the policy, the aspirations and enthusiasm of people, so that the port will be run for the benefit not only of those using it, who will be stakeholders, too, but the people who see it being used and live in the area. We believe that engaging the public is a positive advantage in that area.

Paul Nowak: It is very hard to generalise. You can have local authorities that are really good at engaging their communities, local electorates and people who use those services, and you can have local authorities that are very poor at doing that. I am not sure that this is a function of the ownership type. If I have a problem with my refuse collection, which is organised by my local authority at the moment, I can speak to my local ward councillor and he or she, if they are a good local councillor, can resolve that issue. If they are not a good local councillor, the odds are that they will not resolve that issue, or be interested in resolving it.

As to those who are more likely to be enthusiastic about these initiatives—this has come from different pieces of evidence that the Committee has seen—senior staff on the whole tend to be more enthusiastic about these approaches than staff in lower grades. You can see a service being run effectively for the benefit of a group of senior staff. That does not mean that they are necessarily better run or better engaged with the local community. I am not sure this is purely a function of ownership type.

Q239 Mark Pawsey: To take the specific example you gave, are most people bothered? Is it not the case that the vast majority of people simply want their local services delivered and they have no regard for the structure of the organisation?

Paul Nowak: I would flip that round slightly. The Fabian Society is conducting some research for us. It has done some extensive polling with YouGov and found that the British public wants to see the majority of the services delivered either directly by government, however you define it, or in partnership with the third sector. What they do not have a preference for is delivery by the private sector, or charities alone.

Q240 Heather Wheeler: Lots of evidence has been given to us so far. What stands out particularly is the evidence from Oldham Council. Where service has been transferred to a co-operative or mutual, they are

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subject to the requirement for a competitive procurement process. Do you see this as a problem, or is it a sensible test that will stress the efficiency and viability of a prospective co-operative?

Simon Randall: It is one of the issues on which I think all three of us agree. The TUC in their evidence said that public procurement is the biggest single problem in getting small communities and co-ops involved in running public services. The Government have put forward proposals, as you know, to have an exemption for co-ops in the field of public service tendering. As you may also know, the European Commission have recently put forward a directive, which is being reviewed by the European Parliament at this very moment, and hopefully there might be an amendment accepted whereby local authorities could negotiate direct with community bodies and co-ops in dealing with public services for short-term contracts of three years. One hopes that will be agreed, because this is the International Year of Co-operatives. If, for that reason alone, we can get that incorporated in the EC directive, that would be a huge benefit. There is a fear that this would be, if you like, a Trojan horse for others to become involved. The Secretary of State said that if he finds evidence that other bodies are behind small co-ops, he will try to stamp it out. I am not quite sure how, but he has said that, and if he has said it, let us hope he does it.

Procurement is an issue. If I am a small local authority staff team wanting and being encouraged by my local authority—it is important to have encouragement from the local authority—to take over a service, and I am told that I have to go through the full procurement, my heart will probably sink, unless I have huge enthusiasm for filling in enormous forms which, sadly, some local authorities use by way of gold plating. It is very difficult. If, hopefully, we can get an amendment to the directive and the Committee is able to put forward a proposal to support it, that will only help achieve that amendment in the European Parliament.

Paul Nowak: I would echo Simon's concerns. There are real issues particularly for small, nascent local co-operative organisations about how to compete against national or multinational large outsourcers who have economies of scale, the ability to run loss leaders and access finance potentially much more cheaply. It is very difficult. If you are serious about levelling the playing field, you need to find some way of supporting those new organisations.

Q241 Heather Wheeler: I am sure Ed will agree with all of that. That brings me beautifully to my next point, which is about accessing funds. Do you think that the Government need to change arrangements for how mutuals or co-operatives ought to be able to access funds? Paul, you have alluded to the fact that private sector companies can access these funds, but maybe mutuals and co-ops cannot.

Simon Randall: That is undoubtedly an issue. The Government have put aside a fund to help new co-ops and mutuals setting themselves up, but that money will run out quite quickly. As Paul has said, finance set-up costs are a huge hurdle; there are others, such as skills. Some co-operative teams will not necessarily

have all the skills required to run a new quasi-commercial body, plus the general issue about capacity. There is a lot more that I think needs to be done to try to get some means by which there is easier access to capital. The banks we are told have been given more funds. That might be a source, but there needs to be education about the importance of co-operatives or staff-owned organisations so more money can be freed up for them to take over these new roles.

Ed Mayo: Simon is right. Obviously, there are upfront costs if you are trying to transform a service from the outset. Longer-term contracts, which is a link to your earlier question, also make you more bankable. If you have a longer-term contract, it is easier to raise finance in that form. By and large, we do not have financiers and investors who understand the co-operative and mutual models very well. We find it can be difficult for people to go through the hurdles in terms of the understanding, but as the field grows, if it does, that may well change. All businesses will say that access to finance is absolutely key to growth, and co-operatives are no exception in that regard.

Paul Nowak: For our members the key is about protection of employment standards, pay, terms and conditions and access to pensions. Thought needs to be given to how you support co-operatives that want to do the right thing and maintain decent pay, terms and conditions for staff, and how they do compete against companies that might not have those same obligations or commitment to respect the pay and conditions of staff.

Q242 Chair: If co-operatives are going to get some favourable treatment in the ways you have described—that may be quite reasonable—should there be a lock on their ability to de-mutualise and release the value of the assets for the private benefit of the members of the co-op?

Ed Mayo: At the moment, I would characterise the UK approach—predominantly, England—as, let a thousand flowers bloom and 900 of those will be called mutuals. I think that can be good if you learn what works and focus on what works. I have some concerns that some of the models we are seeing—the early social work practices, for example—really do not have some of the business skills that would be required. There is some waste in relearning some of those lessons.

Other countries that have a very strong record on public service co-operatives in areas like schools, child care and disability services—like Spain, Italy or Sweden—have gone down a different route, which is to focus on co-operatives with exactly the characteristics you have described so they cannot be de-mutualised. In Italy, there is an exemption under the procurement arrangements for lower-level contracts for involving what are called social co-operatives, which Italy has negotiated with the European Commission. Social co-operatives, of which there are about 7,000 in Italy, are focused on the delivery of public services, or services alongside public services. They come in two types. One of those types, subject to this beneficial treatment, has to involve people with disabilities, because essentially

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those are services are for them. It is a multi-stakeholder co-operative model. They can form long-term partnerships with local authorities because of this exemption.

One of the issues that emerges for me is the risk—dare one say?—of lawyers taking over and trying to capture complex public services in contract form that can be subject to market testing. I think that is a game that larger companies have learnt to play to the cost of the taxpayer. Much of the public service agenda that the current Government are pursuing is to try to get better value for the taxpayer, rather than pursue quite complex legal routes. In some areas it is right to build partnerships that are based on trust, where you are dealing with complex outcomes. It seems to me that where co-operatives have the right values and a democratic element built in and involve additional costs, such as involving users with special needs, it is not unreasonable to see that as something to privilege within a procurement process, whereas everywhere else you would say, “We want a level playing field. We are enterprises like any other, and we will compete as any other.”

Q243 Heidi Alexander: I apologise that I was not here for the start of the session. Can I press you on the discussion we just had about procurement? While I appreciate that we have been talking specifically about enterprises set up within the public service itself and peel off, if you like, I wonder whether we have just had quite a bleak discussion about how difficult it is. Do you think there are any ways round it at the moment? The reason I ask that question is that in my own local authority, Lewisham, there has been an exercise in using a social enterprise to run free libraries. A process was gone through in terms of expressions of interest being sought. The buildings were then subject to an asset transfer, and a social enterprise is running free libraries. That was not a particularly burdensome or difficult process; it happened in the space of a year and it was quite innovative. I just wonder whether there are some ways around this issue at the moment. I am not familiar with all the detail, but I just wonder whether we have been a bit bleak in the debate so far.

Simon Randall: We are probably the most Eurosceptic nation in the EU and yet we do like playing by the rules. As Ed says, the Italians have found their way round the rules by getting exemptions. I did not know that, so I think we must try to get an exemption. Because of that, lawyers—I am afraid I therefore apologise for that breed—say you need to go through the procurement rules. Because of that rather odd European case, it does not matter how large the contract is, you have to have some form of procurement or market testing. I think that is the problem.

If you get a local authority that takes the view it is worth taking the risk and there are ways to seek exemptions—because a French company will have no conceivable interest in wanting to run these libraries with a co-operative in Lewisham—you could perhaps take the view you are going to negotiate direct. If local authorities were prepared to take a little more risk they could perhaps negotiate direct. It depends on whether

you have got a lawyer who is more flexible, or one who will give a red card and say you have to go down that route. But you are quite right. Unfortunately, local authorities are incredibly risk-averse, and that is why they will always go down the safest route, namely procure in any event.

Heidi Alexander: I am married to a lawyer, so perhaps I should not say anything else.

Chair: So, you agree with that, do you?

Q244 Heidi Alexander: Simon, you raised a really interesting question. I think you used the word, “risk-averse” and perhaps local authorities tend to exhibit that tendency. Do you think this is a cultural barrier in terms of local authorities setting up co-operatives and looking at new models of service provision, not just being risk-averse in terms of decision making? I put it to you—I welcome comments from all of you—that perhaps some people who go to work for a local authority like the security that the job brings; they like the fact that perhaps there is a decision-making structure where the buck stops with somebody else. Do you think there are other cultural barriers within local authorities about setting up co-operatives and moving to other forms of provision?

Simon Randall: I think the answer is that co-operatives are a new area for local government. There is no doubt about that. However, transferring local authority services to outside bodies is not unusual. In housing, large-scale voluntary transfer has been widely used. We have heard about education. Academy schools are done in a different way. We have heard—you will hear more—about leisure trusts, all of which involve an inclusive approach where local authorities have been prepared to go down that route. I think co-operatives are slightly new, and, understandably, local authority staff, as has been said already, might be nervous about going down that route. However, if the local authority team wants to go down that route and exercise the Right to Challenge, I would hope the local authority concerned would encourage it where it looks to be a viable business. I think that is the approach. We then have procurement, which I have already talked about.

Q245 Heidi Alexander: Do either of you have anything you wish to add?

Paul Nowak: If you characterise local authorities as risk-averse, another way of looking at it is that local authorities and councillors are custodians of public resources. One reason why they are very keen to make sure they get procurement processes right is that, if they do not, they could be subject to legal challenge; they could be accused of misusing local council taxpayers’ money. I am always wary when there is a simplistic distinction drawn between the public and private sectors. I speak as someone who has worked in both the public and private sectors, and has represented members in both. I would not think that our members working, for example, in British Telecom are any more entrepreneurial or risk-taking or innovative than the people we represent in local hospitals or local authorities. A lot of this comes down to management and the culture of an organisation.

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This goes back to a point I made before. You can encourage people to work in certain ways, and a co-operative way of working is not directly related to the ownership model or legal form of the organisation they work for. I think that ultimately comes down to management capacity.

Ed Mayo: I would find it difficult to make a sweeping generalisation about risk taking and culture within local authorities, but there are different frames brought to bear that might explain some of this. As to the framing of expenditure in a local-authority context, most local authorities provide over 450 local services, so there is an incredible complexity, but the framing tends to be more project-oriented. There is a limited timeframe, and all the money must be spent within that timeframe and finished. If you are running a business as a co-operative or wider social enterprise, you are doing almost the opposite, which is to try to build a long-term institution. You are thinking about the long term, not the short term, and you are thinking about using the assets to be able to build an institution over time, so costs cannot equal price, because you have to make sure that you have the capitalisation to be able to move forward.

I think it is a different model if you are running something as a traditional expenditure, as opposed to a business orientation. Some of what we see as risk aversion may be being responsive to some of the accountability demands that go with that kind of project model, as opposed to what I think is a reasonable way of looking at it, which is: how do you create systems and markets, where appropriate, that deliver high-quality outcomes for the long term?

You would be upset if the social enterprise you talked about in Lewisham fell over in six months' time, because my guess is that part of the interest in that model is that this could be a sustainable long-term model to engage communities. But very often you get tripped up by the short-term project accounting model, as opposed to a long-term relationship. The Committee may hear from Greenwich Leisure. I think Greenwich Leisure is a fabulous example of a long-term partnership and relationship that cannot be quite bottled into a contract or commissioning process. There is clearly something deep there in terms of trust, values and shared outcomes that also underpin it.

Chair: Thank you all very much indeed for coming to give evidence this afternoon.

Examination of Witnesses

Witnesses: **Cllr Peter Kotz**, Greenwich Council, **Peter Bunday**, Deputy Managing Director, Greenwich Leisure Limited, **Donna Fallows**, Practice Lead and Senior Practitioner, Evolve YP, and **Cllr Gwilym Butler**, Shropshire Council, gave evidence.

Q246 Chair: Thank you and welcome to the fourth evidence session in our inquiry into the co-operative council. Thank you for the evidence you have given us in writing and for coming along this afternoon. To begin with, could you just say who you are and the organisation you represent?

Cllr Butler: I am Councillor Gwilym Butler, a cabinet member for Flourishing Shropshire Communities. That includes the voluntary community sector, town and parish councils and the localism agenda, and I am the lead for changing our council into a commissioning council.

Donna Fallows: I am Donna Fallows, the practice lead for Evolve YP, the social work pilot in Staffordshire.

Peter Bunday: I am Peter Bunday, deputy managing director of Greenwich Leisure Limited.

Cllr Kotz: I am Councillor Peter Kotz, and I am the Royal Borough's cabinet member for culture and creative industries.

Q247 Chair: As I said to our other witnesses, if something is said that you agree with, just say you agree and then we can move on to try to cover as much ground as we can. To begin, Donna Fallows, how did you manage to sell the idea to councillors who must have been a bit sceptical to begin with about your ideas for establishing Evolve YP? Did you produce a list of possible benefits that would come out of it and persuade them that was the way forward because of that?

Donna Fallows: We did not have to sell anything; it was the local authority who brought this idea to us. I

have been a practitioner for 12 years on the looked-after children and throughcare team. It came from a briefing where the heads of service talked about the new deliverance of social work practice, which was a gift to us because there are times when you are caught up in bureaucracy and politics.

Chair: I am sorry, but we will have to go to vote, which we are required to do occasionally. Assuming there is one vote, we will suspend for 15 minutes and get back as soon as we can.

*Sitting suspended for a Division in the House.
On resuming—*

Q248 Chair: I am sorry for that interruption, which seems to happen from time to time. I think you were in full flow.

Donna Fallows: To go back to what I said, we did not feel we had to sell it to the local authority. They came to us. There was a briefing one day where they talked about the new deliverance of social work. We were a really well-established team from the looked-after children and throughcare team. To us, this was an absolute gift to deliver these services in a different way and provide better outcomes for young people and looked-after children.

Q249 Chair: Clearly, the staff are very much involved in this.

Donna Fallows: Absolutely, yes.

Q250 Chair: Do you have a different relationship with service users from that which you had before? Is there a real knock-on benefit to them at all?

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Donna Fallows: Not at all. When we started this, the majority of the service users came with us. I think only about three or four chose not to come into Evolve YP, but for the social workers who chose not to come into the practice it was about being familiar. I think that was the only reason they did not come with us, but the majority did.

Q251 Chair: But what about the actual service users? Are you getting a different reaction from them?

Donna Fallows: Not at all.

Q252 Chair: Do they think you are more responsive to their needs?

Donna Fallows: Yes. I think it is more positive because we are more responsive. We have a flat management structure, so I am not a manager but a practice leader. That just means I am the liaison with the local authority. We have no managers as such. We are all very accountable and responsible for what we do; we all have full caseloads. We have cut out a lot of bureaucracy and red tape, so we have more time with young people. We get out there and do the work with young people and families; we do more working groups with young people. We spend more time with the young people, and that is what it is all about.

Q253 Chair: Moving on to Greenwich, clearly you are a different scale of organisation, but what was the rationale for setting you up in the first place? It is way back now; you have been going for nearly 20 years, haven't you?

Peter Bunday: The time was 1993, which was not dissimilar to now in economic terms, with compulsory competitive tendering being introduced in local authorities. There were severe council cuts. There was a service covering seven leisure centres, and at the time there was a threat to close two. We could see that going on year after year, because there was no money in the system. We had about 350 employees at the time and anticipated losing 20% of them. Together with the council, we entered a period in which we looked at alternative options for service delivery. The co-operative movement had a strong history in Greenwich, so it was always one of the things that we had discussed. Together, we came up with a solution that the staff were happy with. We voted on it and had 85% support to go ahead with it; 85% of people took shares in the company. They are non-dividend-paying shares. It is co-operatively structured based on one person, one share, one vote. The council took their appropriate decisions and did desk-based exercises on best value, and off we went. Those two centres and the jobs were saved. In Greenwich, we have now opened three other centres and increased the jobs, so it has been a turnaround from very much a negative situation to a positive one.

Q254 Heather Wheeler: I am interested in whether and how achievements are being measured. As part of the matrix of you as the commissioning council and supplier, as long as you are not breaking commercial confidentiality, how are you going to measure people? What sort of targets are you looking for, and how do you feel you are achieving those targets?

Cllr Butler: I think that is one of the \$20 million questions. Under localism, as we turn to payment on performance, it will make things a lot easier for a commissioning council. However, payment on performance does bring a risk, if you are dealing with other sectors such as Donna's, which obviously needs some funding upfront. In the pilot, we have been running under People to People, about which I think you had some information. We are seeing greater community and customer satisfaction. Everything cannot be measured just in money; it needs to be measured in achievements in the community. We are also seeing the prospect of reducing demand on the public sector, which is key, because a lot of the signposting is going to other sectors, such as the voluntary and community sector, which is crucial. In anything we do to try to save money—because that is one of the key measures—we could be guided through it by becoming balanced and well maintained councils and reduce demand. If we are reducing the demand and keeping up our reputation, that is a key performance outcome.

Q255 Heather Wheeler: That is very interesting.

Donna Fallows: From our point of view, we are monitoring performance indicators throughout the local authority. We are compared with the other looked-after children's teams, but in terms of families, foster carers and young people, we send over our own questionnaires to see whether or not we can improve. We also have looked-after children and young people groups where they have their say. We also have a steering group on which young people sit, along with different agencies, so they can say what they feel and if we can improve in any way, but the majority of it is about performance indicators in the local authority. We are also a pilot; next year will be the evaluation year by UCLan, which has been a vigorous process. They have been coming in to see whether or not we are achieving. From our statistics, we are exceeding the local authority, so it is working. It really, really is working.

Peter Bunday: One of the common fallacies is that in setting up our organisation the council has abdicated control of the service and we are up and running and doing what we are doing. There is a contract and lease in place; there are detailed performance indicators. We are measured by resident surveys, satisfaction surveys and user numbers. We are just piloting some return on social investment, along with the sector, so there is a whole raft of cross-cutting indicators not just in financial terms but in our triple-bottom line, as we say, which is about social impact, what we are reinvesting back into the community and what the measurable outcomes are.

Q256 Heather Wheeler: You have answered by next question as well. I will come back to you. Councillor Kotz, if these mutuals are achieving all of these great things—it is a little difficult to ask you because you are part of the Greenwich team that has put it out and let the baby grow—do you think there are other elements of council business that ought to be able to mirror what these mutuals are achieving?

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Cllr Kotz: I think there are, and we have begun to look at some other areas where we may wish to progress some of the good work that GLL has already done in terms of leisure. In addition to running our leisure centres, since the beginning of April, they have been running our library service under contract, so we have developed that as well. We are looking to other areas and other parts. In our submission, we referred to other areas that we were looking at. We have some quite in-depth information about the areas we are looking at, as well as the work we have already done with Greenwich Leisure.

The other thing about GLL is that, given the work we have done, we are now in a position to give them a long-term contract. We have entered into a 25-year contract, which gives stability over a long period of time and also allows us to attract inward investment so that we can invest more into the long-term future of our leisure centres and other facilities.

Q257 Heather Wheeler: Councillor Butler, did you want to come back?

Cllr Butler: We cannot underestimate with performance and outcomes what the voluntary and community sector does already, because a lot of that sector is very strong and historically has had to do it by getting funding from the Big Lottery Fund and other government funding. We must not reinvent the wheel. That sector already knows how to monitor the performance, and we should learn from them.

Q258 Chair: Greenwich is an interesting case, isn't it? You faced a situation where you would be closing centres, and suddenly you become a co-operative and everything is all right. Everything falls into place; there is no problem with funding; and you keep them open. What is the magic of the solution?

Peter Bunday: We firmly put our success down to staff ownership and democratic governance.

Q259 Chair: Did everyone take a cut in wages to make it work?

Peter Bunday: It is interesting. Our staff voted on having a percentage that could go towards helping the business if it was in trouble, so the idea that we are kids in charge of a sweet shop and are not capable of making executive decisions is a complete fallacy. As a staff-owned organisation, you are empowered, invigorated and freed entrepreneurially to look at options and new options, and that is taken very seriously. We are now the largest operator in the UK; we are bigger than all the private sector guys in our field. We operate 26 different contracts across the UK. Our turnover was about £5 million when we left Greenwich; it is about £110 million now, with 5,000 staff, but we put that down to having a co-operatively structured, staff-led organisation to give it that X-factor.

Q260 Chair: Did you cut out some management structures? Did you flatten management to enable that to happen?

Peter Bunday: We have still got strong professional management. It is not a syndicate collective where we decide who is going to be MD for the day. We have a

very strong management team, but our board is made up of lifeguards, receptionists, duty managers and managers. We have a college voting system to make sure we get representation across the organisation. It is not easy; it is hard work to manage it democratically, and when you first get into it as a manager it is slightly alien, because you are used to very top-down driven management, but if you put in that hard work, it has potential.

Q261 Mark Pawsey: I wonder whether I could stick with Greenwich and pick up the issue of people who criticise the setting up of mutuals. They say that it will impede the potential for joined-up services across sectors, and we are being told there is downward pressure on staff terms and conditions, and little evidence of accountability to elected members. The people who are saying that most strongly are the trade unions. Peter Kotz, you are a member of the Labour Party; you work closely with the trade unions. Are you saying that in this case UNISON are completely wrong?

Cllr Kotz: I would not directly in terms of UNISON's view, but in terms of Greenwich Leisure Limited the model works. Within Greenwich Leisure the trade unions are involved on the board because they are also members of that mutual.

Q262 Mark Pawsey: But by opposing this move, would you say the unions are scaremongering?

Cllr Kotz: I do not think it is about scaremongering. I think the issue really is about people working together to make sure there is an agreed shared vision for the services you wish to deliver. I think that is why Greenwich Leisure Limited has been the success it is. There has always been a need to have a clear and robust business case that is transparent and achievable. I think that Greenwich as a borough, working with Greenwich Leisure, has developed that over a period of time.

Q263 Mark Pawsey: You are proud to be a member of the council that has this body doing these great things, running a £110 million organisation with 5,000 staff.

Cllr Kotz: I am happy to be a member of a council that sees improved leisure facilities throughout the borough and increased and brand new facilities being developed in partnership with the GLL.

Q264 Mark Pawsey: Are those facilities that would not otherwise have come about? Has the formation of Greenwich Leisure in its current structure enabled that to happen? Otherwise would the facilities in Greenwich be far worse?

Cllr Kotz: If we go back to the original concept of setting up the company, in those days that may well have been the case. The issue is that a long-term partnership has been developed with GLL and, because of the way that company has been set up, we have been able to get the investment to deliver the new facilities we have got. At the moment, we have got a new swimming pool; we have a lido in Charlton Park, which will be opened in a couple of weeks. We have been able to reinvest in that alongside Greenwich

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Leisure. We have a centre in Eltham, which has brand new leisure facilities shared with council facilities in that same complex.

Q265 Mark Pawsey: To go back to my point, do you think that would not have happened in the absence of the present structure of Greenwich Leisure?

Cllr Kotz: I am not saying that, because it is hard to tell over a period whether or not that would be the case.

Q266 Mark Pawsey: But you are saying lots of good things about it.

Cllr Kotz: I agree with you; there are good things. I think it would have been more difficult to have those things had the company not been set up. I am not saying we would not have those centres now. It may have been a bit more difficult to deliver them without setting up the provident mutual company that was set up.

Q267 Mark Pawsey: Perhaps I may now turn to Evolve YP and Councillor Butler. You have hived off, effectively, one of the areas that people expect you as a council to do. How is your council accountable for the services that Evolve YP provide? How do you justify to the people you represent that they are getting as good a service, because effectively it is done outside rather than in-house?

Cllr Butler: I understand what you are saying. The first important thing, which I have not heard enough about this afternoon, is that it is about end users; it is about people and communities. It is not about protecting jobs and councils. It is about reducing demand and making services more sustainable for communities and people more responsible for their own actions. We in Shropshire have the People to People pilot, which is slightly similar to Donna's. We have learnt from that and put together a strong, transparent gateway process. If any staff mutual wants to look at spinning out, that is transparent and can be seen by the public, irrespective of what the service is. Through that process, we also consult with the voluntary and community sector, which is very strong in Shropshire. What we do not want to do is reinvent the wheel when the sector is doing it anyway, because in staff spin-outs you can end up reducing sustainable social capacity in communities.

Q268 Mark Pawsey: But the key issue I am talking about is accountability to the electorate. How can you argue that by devolving responsibility to a body that has nothing to do with the town council anymore is effectively responding to the electorate?

Cllr Butler: Obviously, I am a member elected by the people. On the People to People management board, there are only two of the original local authority officers. The rest of the board is made up of users and people from Small and Medium Enterprises (SMEs) and the voluntary and community sector, so it can be seen to be totally transparent within the communities. The spin-off is led more by the communities of interest and local users than when it was in-house at the council.

Q269 Mark Pawsey: There is more public engagement than there was previously.

Cllr Butler: I would say so, yes, much more.

Q270 Bob Blackman: I want to touch upon a couple of areas of risk because I think they are rather important. There are many areas where you can think of mutuals or spin-offs, but putting vulnerable children in a spun-off organisation would seem to me quite a risk, if the people are not doing the job properly. Indeed, in some of the evidence we have seen there are lots of comments about how bureaucracy has been reduced, and so on. What safeguarding mechanism does the authority have to make sure that the spun-off organisation—in this particular case, Evolve—is doing everything it should be doing?

Donna Fallows: I suppose that when we were first set up there was massive risk within the local authority. The biggest one was about them not having as much control over what they did. The key is that we had formed a really good relationship with the local authority. I was with the local authority for 12 years, and we still maintain a fantastic relationship with the local authority. We have regular contract meetings every three months. We get together and discuss spending and safeguarding practice. Quite a lot of in-depth things are on the agenda. For me, that is the biggest key to the risk implication. Another way of monitoring that is by performance indicators, measuring ours and other looked-after children services. We do really well.

Q271 Bob Blackman: What is the attitude of mind of the looked-after children? One of the problems, as you will appreciate, in that field is that often the last people to be asked about anything are the children being looked after.

Donna Fallows: We have really good relationships with looked-after children and foster-carers. We have regular groups, which I have already talked about, in Evolve where looked-after children tell us what they want; they shape our service.

Q272 Bob Blackman: Evolve is part of the structure, but there are other looked-after children groups that are still part of the council, as I understand it.

Cllr Butler: We are different councils.

Q273 Bob Blackman: But, as I understand it, are you there solely for one council, or do you do work for anyone else?

Donna Fallows: Solely for the council, but we have created these looked-after children groups that meet every fortnight on a Tuesday evening, to which looked-after children are invited. We do all sorts of activities with the young people. They can voice their opinion. We also have a steering group on which a looked-after young person sits alongside different agencies: health and education. Again, they shape and can voice that opinion of how they want it to go.

Q274 Bob Blackman: Peter, can I ask one question about the transfer of your libraries? Was that a full

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public procurement exercise? How did Greenwich Leisure get to take on that role?

Peter Bunday: There was a tender exercise that ran for the leisure centres and libraries. Then it was decided to run the leisure centres on their own, so the libraries were separate. We then went through a process with the council to assess the service demands moving forward. There were desk-based exercises on best value and how to move forward, and then we moved into the library transfer.

Q275 Bob Blackman: Because you were not doing libraries originally, were you?

Peter Bunday: That is right.

Q276 Bob Blackman: It was a brand new exercise. How could you demonstrate your capability to run libraries—you clearly could do it with leisure facilities—in competition with other people? It seems that you did not have a background and expertise in that area.

Peter Bunday: That is right, and it is the competition with other people, how strong the competition is and whether it is right for Greenwich. Our particular approach was to hire in advance the best team we could get hold of in the sector. The person who leads it got an MBE for services to library services and was highly recommended and highly regarded within the library sector, and built a team capable of handling the library division within Greenwich. We were able to demonstrate that we were competent to do that job. I am pleased to say that, although the transfer is still quite young, the signs in the early stages are good.

Q277 Heidi Alexander: Councillor Butler, can I come back to the situation in Shropshire at the moment? In your written evidence you highlight a number of teething problems, if you like, in your experience of spinning out of local government services, or setting them up as co-operatives, mutuals or whatever.² How confident are you that these types of co-operatives are the solution? I am trying to get behind what your evidence is really saying.

Cllr Butler: I am fairly confident that we will come out with an end product, but I, and I think the council, do not believe that staff spin-outs on their own is the way forward. This comes down to the work we have been doing over the last two years under the Localism Act and the Right to Challenge and Right to Buy, working very much with our voluntary and community sector. We have created the Shropshire Providers Consortium, so the sector itself is in a position to bid for our new commissioning ways of working.

We then have the Right to Provide come out, which means we have to offer the facilities to the staff if they want to initiate coming out. That has created friction—these are some of the points we have mentioned—with the sector. This goes back to the way we have created our pathway. If staff want to come out and try to do something, we have a three-month gateway or pathway where the other sectors are involved to try to overcome those teething problems.

On the one side, if you have a staff spin-out, as mentioned earlier, there is a risk element to the individuals. They have been used to working for the public sector. You have TUPE and pension responsibilities and the job satisfaction and contracts that come with it. They are also not in a commercial world. If you are going to a staff spin-out, they should not rely on just our future commissioning arrangements because what we are doing is changing. Just because we have already done it since year dot does not mean we are going to do it in the future, so they need to be aware that they are going to have to get into a commercial environment and change. Our belief is that, if you have a staff spin-out, it should be done in conjunction with the sector, because the sector has a lot of responsibilities and knowledge of the commercial elements, and the performance elements we have heard about that could be brought in with it, and also SMEs.

Q278 Heidi Alexander: Is this causing some friction with your staff at the moment? Reading your written evidence, you do not have a particularly high opinion of them. It says that “most staff don’t know the true cost of their service”; they have a “poor understanding of the local market within which they will be operating”; they have “little or no awareness of the contract and procurement restrictions”; and staff are interested in proportion to the size of their salary in terms of setting it up.³ Is this causing problems in the local authority with staff at the moment?

Cllr Butler: Not at all. The history of local government has been delivering for central Government and what the state wants. The whole point about localism now is delivering what the individual wants and what communities want, whereas before it was all delivered on the basis of national government policy. Shropshire is very different from Greenwich. We have an urban corridor; we have a deprived north and one of the most rural parts of the county in the south. We cannot deliver a one-size-fits-all policy, but the majority of our excellent staff in Shirehall would not understand the differences, because they are there to deliver a strategy on a policy. They need to get into a completely different world.

Q279 David Heyes: I remember that maybe 20 years ago in Greater Manchester we had an excellent, efficient and well-regarded bus fleet. As a result of legislation, it was required to be open to competition, and the method devised for doing that at the time was to hand it over to employee ownership, and all the bus drivers and everybody else who worked for public transport had several thousand pounds’ worth of shares. Within two years, all of those shares and ownership of the bus fleet was in the hands of the private sector: First Bus, Stagecoach and outfits like that. Very soon after that, the very shiny brand new buses we were so proud of in Greater Manchester were dispersed all across the country and replaced basically with a clapped-out fleet of third-world standard vehicles. It took us years to recover from that disastrous decision to go for employee ownership. Is

² See Ev 132–133

³ See Ev 132–133

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that still a significant risk in the situation we are in today?

Peter Bunday: Manchester is still held up as what not to do on the transport side; it is absolutely not what to do. It is the cautionary tale. We have a fiercely public service ethos; we are not for profit; we have locked-in assets; and there are no dividends on shares. This is not a get-rich-quick philosophy. We are setting up an organisation that is locked into delivering public services for the long term. You are absolutely right about the bus service. It was a disaster. It was unpicked, similar to the way that some of the mutual building societies were unpicked, from which we need to learn. It is interesting that, when we look at the banking crisis, public confidence is more in mutuals than in profit-making banks. We take heart from that. I often raise my eyebrows when people say that our model is a new one, because we have been going for a while. There is a path there. We are not talking about share ownership and profit-driven companies; we are talking very much about non-profit, distributing organisations that deliver public services for public authorities.

I take exception to the idea that generally a local authority officer—I was one—is in the job because they want a cushy life and are not capable of operating outside it. I am always proud every time we beat the private sector in the tender. We are now the biggest in the country. We can prove hands-down that there are some tremendous staff in public services, and they are in public services largely because they have a social chip and ethos to want to deliver public services, and we come from that. Your question is a very probing one. The question is: are we going down the wrong line again? Those foundation building blocks need to be in place before we start building on top, and then we do have, despite what was said earlier, some fantastic examples of spin-outs.

Q280 David Heyes: For the rest of the panel, is asset lock-in the answer to avoiding that danger?

Donna Fallows: From my point of view as a working practitioner, since we had the opportunity to do this, the morale of the team has been absolutely massive. It was ownership; it was ours. Because it is ours, we work that little bit harder. There is the dedication of the staff, and morale is absolutely fantastic. We have lost no staff since we have been operational. We have been more creative and accountable and, I suppose, more conscious of spending. When have you ever known a local authority be out of the red? We are operating in the black because we have been more creative. It has really worked for us.

Cllr Butler: There are two sides to it. Coming from the Shropshire view, we are looking at setting up private business for the council and creating public profit. When we are working in partnership with the private sector it is key that the council maintains 51% of the equity, so it has overall control. That is one thing from which we are learning.

The other side of the coin is how we commission in the future and the role of the elected members who are responsible for their communities, and the influence they have on those commissioning contracts,

to make sure that the issues that happened in Manchester do not happen.

Cllr Kotz: In the early years, it is very important that you get that financial lock down to get security, so people have some confidence about continuing to believe in the services you have changed. That company can become confident and develop itself over a period of time, so that not only can it continue to deliver the services it has just taken over, but it can develop better services for local people.

Q281 David Heyes: How was the question of the future ownership and safeguarding of assets in the public sector addressed in the case of Greenwich Leisure, and maybe separately in the Evolve YP situation?

Peter Bunday: If I may go first, in our mem and arts, it is very clear that assets can transfer only to similar non-profit-distributing organisation or a local authority. In the contracts we have, if there is any default we do not own the assets; we literally have a lease on the assets in a lock-in. If there is any issue within the contract with Greenwich, it defaults automatically back to them; it is their asset, not ours.

Donna Fallows: In terms of Evolve YP, we do not have any assets at the minute. It is a bit like an umbilical cord with the local authority. They have not yet cut it as such.

Q282 David Heyes: Notionally, you pay rent to the local authority.

Donna Fallows: Yes.

Q283 David Heyes: Are you saying they have not charged you yet?

Donna Fallows: We pay rent for our building, but again that is only for the four-year contract. At this moment, it is uncertain whether or not we are going to be rolled out. We are waiting for the DfE to devise legislation as to whether or not we will be rolled out. In terms of assets, we rent the property. ICT belongs to the council. We have just a few desks and staff; that is it. We have nothing more.

Cllr Butler: Under the Localism Act, one has the community register of assets. We are encouraging all our communities to put on to the register any assets, whether they are in the council, private sector or in trust, so if at any time they come up for availability, the community has the opportunity to take them over. That is done very much through our town and parish planning.

Q284 David Heyes: Doesn't the community own them already?

Cllr Butler: Yes, but included in that could be the local pub, post office and playing fields. There could be all sorts of things.

Q285 Simon Danczuk: I want to ask about engagement and transparency. You touched on it very briefly in terms of governance. As to transparency, I read a quote from UNISON who were talking about the move to social enterprises, mutuals etc. They refer to reduced accountability to service users and local council taxpayers. Let me give you an example in

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terms of Rochdale. Rochdale went down the path of spinning out a social enterprise, a leisure trust, a few years ago. There was a furore a couple of months ago about the salary levels of the MD and deputy MD. I received an anonymous letter detailing what those salaries allegedly are. The MD was on £69,500 in 2006, and it had increased to £120,000 in 2010. The deputy MD started on £73,000 and that had gone up to £96,000 in three years. I wrote to the MD asking whether it was right or wrong, and he said he was not prepared to tell me the answer. I wrote to the chairman of the board of this social enterprise four weeks ago and have not had an answer. The local paper, the *Rochdale Observer*, has asked the same questions and not got an answer. In terms of transparency of a social enterprise, which is similar to your own organisation, what do you guys make of that?

Peter Bunday: Transparency is interesting, because I do not know of any UK plc that has councillors sitting on their board scrutinising every paper, which is what we do. That is the first point. The second point is that we do national benchmarking on salaries for all our staff. We know we are significantly under the private sector and equivalent organisations and are broadly on track with the public sector, based on the size and scale of operations. That we tend to track. There is always an issue of freedom of information in any organisation that they are entitled to fall behind, but in our organisation, for example, Peter will know every one of our salaries. Indeed, we are still an admitted body for the local government pension scheme. My personal salary is administered by the Greenwich scheme, so they have got full access to my salary.

Q286 Simon Danczuk: But not the board members. I am asking the public. I am a member of the public. It is an issue in the constituency, isn't it? Would I be able to find out your salary level and that of your deputy?

Peter Bunday: Our MD has just gone public on his salary, not because he had to, but because he felt there was a lot of hot air and wasted discussion with people trying to dig up his salary. The reality is that when he put it out there, everybody kept quiet because it was significantly less than they thought. I do not know how many private companies they write to say, "I want to know how much you earn." It is a question of how transparent you are and how open you want to be.

Q287 Simon Danczuk: It sounds like it has not been particularly transparent in terms of Greenwich as well. It sounds to me that it would be easy for me to find out the salary levels of Serco or Capita than it would be for some of these leisure trusts. Peter, you are a board member. What is your view on this?

Cllr Kotz: I am not a board member, but there are three councillors who are and they play their full part. I am sure that if they were to ask for that information they would get it as part of the board process, and it would be reported back to us if there were any specific issues around that. As far as I understand, there have been no issues around that.

Q288 Simon Danczuk: Donna, is your salary made public to everybody?

Donna Fallows: Absolutely. When we took this we were exactly the same as all the other LAC and throughcare services. We did not take any pay rise or anything like that. It is exactly the same. It is not a golden service. We operate with the same budget as all the other LAC and throughcare teams.

Q289 Simon Danczuk: Gwilym, do you want to add anything?

Cllr Butler: One of our leisure trusts in Shropshire is Teme Leisure. To start with, elected council members sit on the board. I assume that is the same in Rochdale. They are part of the board. I am assuming the local council is still funding them.

Q290 Simon Danczuk: Yes.

Cllr Butler: That being the case, the council could find out that information for you, as could the locally elected members. I would be very disappointed if they had not got a local users group who also sit on that board, who would also have the right to the information. There is plenty of accountability in what we spin out on large levels in Shropshire through the democratic mandate of locally elected members.

Q291 Simon Danczuk: In terms of engaging the public, how do you find out about services? Peter, you talked about doing some satisfaction surveys. How do you engage the public in terms of knowing what services to provide?

Peter Bunday: We have a range of issues. We have local consultative panels; we have manager and user forums. For quite a while we had customers on our board, which was quite interesting. They were co-opted on. It is direct feedback. There is a welter of feedback directly from the customers.

Q292 Simon Danczuk: Donna, how do you involve service users?

Donna Fallows: We have a steering group on which young people are represented. We also have local agencies. We invite local agencies to attend our team meetings, so again we can share experience of what we and they are doing. We have working protocols with different agencies as well. We send out questionnaires to young people, foster carers and to the agencies.

Cllr Butler: This is now a huge role for the elected member. Under the Localism Act, we have town and parish planning, which is coming more into the front row, and the new neighbourhood planning. That is not just about building houses and motorways; it is about identifying the needs and aspirations of the community. The future development of my role as an elected member is to become a local commissioner within my community and to understand what is needed in that community and lobby the council to make sure those needs are identified.

Q293 Bob Blackman: It is said that a huge barrier to going for co-operatives, mutuals—call them what you will—is finance and the ability of an organisation to obtain finance. You have gone from a relatively

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small organisation to quite a large one in a reasonable period of time. Have you encountered any particular problems in obtaining finance? If so, how have you dealt with it?

Peter Bunday: It is a good question. We are rather fortunate that we are a cash-upfront business. Our cash flow is very good—people pay us upfront over the tills—so we have been able, with sound financial management, to reinvest using some of our cashflow and bring back the returns. Our gearing is very low.

Q294 Bob Blackman: But you have taken over contracts for different local authorities.

Peter Bunday: Yes.

Q295 Bob Blackman: There are start-up costs—are there not?—in getting the body ready.

Peter Bunday: It is £6 million in, or something like that.

Q296 Bob Blackman: Where have you got the money to do that from?

Peter Bunday: From our bank reserves and bank accounts.

Q297 Bob Blackman: Have the banks helped you and said that you are a good bet?

Peter Bunday: Yes. We have had good relations with banks. It is about trading record. Those early years were difficult. When we are talking about spin-outs generally, it is difficult; for the first three or four years, it is head down, like any new business, trying to make it work. This is where the council comes in. They have got full transparency on every penny you are making, but they do not take back every time you make a surplus, because some of it is to reinvest back into service.

Q298 Bob Blackman: Clearly, Greenwich cannot finance you to run a service somewhere else.

Peter Bunday: That is correct.

Q299 Bob Blackman: You cannot fall back on the council; you are a commercial organisation.

Peter Bunday: We go to the bank. There is a range of borrowing we are able to put in place based on long-term contracts. We are constantly talking to financiers on financing options. Our gearing currently is exceptionally low, and our liquidity rating is very positive. We are a Dun & Bradstreet five-star-rated company, so our financial track record is very strong, but it takes time to build that, as you rightly say, so it is difficult in the early years.

Q300 Bob Blackman: Donna, have you had to seek finance from anyone?

Donna Fallows: No, not at all; we have never had to secure any kind of bank loan. Having a very good relationship with the local authority, we paid a month in advance.

Q301 Bob Blackman: How was that financed? Did your colleagues come together and say, “We’ll stump up cash from our assets,” or did the local authority just say, “Pay us when you can.”?

Donna Fallows: At the procurement stage, that was what the arrangement was going to be. They would give us a month in advance. The money is always upfront, so we never have to get into arrears. I suppose it is about our good budgeting as well. We could overspend but we never have done. I think that is about accountability.

Q302 Bob Blackman: Obviously, you are looking not just at one or two organisations but quite a large-scale effort here. Are you going to offer finance to these organisations, or facilitate them to get money from the banks?

Cllr Butler: I think it goes back to what I have been saying previously. It is the risk element. If you get a small spin-out and staff, who historically have been in a secure job, may have to put their house on the line to get working capital to start something up, it will take them out of their comfort zone. If, when you do a spin-out, it is done collaboratively with the VCS and/or SMEs, who can bring to the table other traits, experience and sources of funding, you will end up with a larger end result. What we are doing in Shropshire is looking at different ways of working. We are looking at transferring large non-risk areas over to a new private company. When they have their service delivery or commissioning contracts, we are hopeful that they will be able to raise funds within the market and trade normally, because they will have those contracts.

Q303 Bob Blackman: One of the other barriers is procurement processes and procedures. What changes are you proposing in those to enable start-ups to take place in this way?

Cllr Butler: When you talk about procurement and/or commissioning, a lot of people think they are exactly the same things. Commissioning now needs to be bottom-up; it needs to be about outcomes to people, and it also needs to be outcomes to communities. We have our own in-house design team looking at what we want to deliver. Just because we have done something historically does not mean we should spin it out in its current form. With the use of modern technology the world is constantly changing. We have to look at new ways of doing things. We have got a lot of staff who are very keen and have a lot of bright ideas to go out along that line.

Q304 Bob Blackman: Peter, are there any changes that you want to see to procurement processes and procedures, or the commissioning arrangements?

Cllr Kotz: Some of those areas around procurement procedures are very difficult for small organisations to access, because they may not have the built-in capacity to be able to access or compete in those procurement procedures. That may be an area where some work needs to be done to make it easier for smaller organisations to be part of this.

Q305 Bob Blackman: Is there anything specific you would like to see changed?

Cllr Kotz: I cannot think of one off the top of my head, but I can always provide that at a later date.

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Q306 Bob Blackman: No doubt, Peter and Donna have something to comment on.

Peter Bunday: I have loads to say on procurement. A school of procurement officers would do. It is a big issue. It was raised in the previous evidence, and I echo a lot of what they say. One of things about the social impact bill is to make sure that is driven through and people take into account not just price but social impact into the assessment in the evaluation. If we get that right, we have to get them on to the shortlist in the first place. Time after time, we are now supporting other social enterprises by partnering up with them and bidding to get them through the shortlist process, because if they have not got a turnover of £20 million, they do not even get short-listed. At that point, you will get no local trust, local co-operatives or anything; it is just giving it straight to the big organisations and going back to a Manchester-type environment where that was not the idea of what the thing was about. We have now set up a co-operative venture with only with bona fide charitable organisations. We help them through that process. We then get involved with the contract, and subcontract to that organisation to allow them to build up their portfolio so they can tender themselves. One is around the whole procurement process and getting evaluation on to social return. If they are as good at that as they are at measuring pounds and pence, we would be better off. The social impact bill is a very good one, but we need to make sure it is driven through with best guidance and examples. There are some issues about EU procurement, which were mentioned to you quite eloquently in the previous submission, to do with simple things like tendering, short-listing and that sort of stuff.

Q307 Bob Blackman: Donna, you are in a relatively new field. Are there any experiences where you would say it would be good if you could change these procedures?

Donna Fallows: In terms of procurement, it was all quite plain sailing. We did not have any issues with that. The local authority was very supportive; everything was there. I think the biggest thing for us at the minute is that we are in an uncertain stage as to whether or not we are going to be rolled out. We are now waiting for legislation from the DfE to come back to say that, yes, the existing pilots can be rolled out. We are now getting to the stage where we need to rebid and do the tender. That is where we are at the minute, so it is all quite uncertain.

Cllr Butler: It is very interesting to hear the issues from fellow members on the board. It is one of the reasons why, in Shropshire, we have enabled the Voluntary and Community Sector Assembly, which is very strong, to create the Shropshire Providers Consortium, which effectively acts as an infrastructure body. All the sector can sit underneath it, but then can go into our commissioning or procurement process at the same level as the big boys. This consortium does the work. We have helped to fund this, but the sector has done it itself, so it provides an opportunity to get into those contracts. I can let the Committee have, by e-mail, the questions and answers about the consortium, if it is of interest.

Q308 Chair: Thank you very much. Finally, what happens if it all goes wrong?

Donna Fallows: It won't.

Q309 Chair: Who is left holding the problem? If leisure centres shut down, they shut down, and people are upset about it, but libraries are a statutory service; the council has to provide a library service; for looked-after children, absolutely there has to be a service. If your organisation fails, or loses money, does the council simply have to step in and take responsibility?

Peter Bunday: It is a question I have been asked since 1993: what happens if it all fails? We have not failed yet. Nevertheless, the question is legitimate. The interesting thing is that within the service TUPE applies to the staff, as you probably know. If a new economic entity comes in, a transfer of undertaking happens so the staff's terms and conditions are protected. People like myself are the ones who usually do not get a job because we are not delivering the front-end services.

The other side of it is that the assets and service are the council's anyway. It is their statutory duty to deliver those library services. Therefore, they would seek to find another provider or service operator. They could choose to take it back in-house if they wanted to, and take on the staff, or they could re-tender it out. Often, there will be things like performance bonds in place. The council's retendering costs are covered if the operator fails; it is not out of pocket. Effectively, if we had a problem the library service would default back to the council and they would look for an alternative supplier, if they wanted to go externally, and transfer the staff to them, and on they go; if not, they could take it back in-house.

Q310 Chair: If you had any debts, it would just be hard luck for the people who work with you.

Peter Bunday: If we went into liquidation, the debts obviously are not the council's; they belong to us as an organisation, so it is protected.

Donna Fallows: When we first did this, we took a four-year work break, so we have lost nothing. If this does not work and it is not rolled out, we just go back to the local authority. We also had a six-month probationary period. If, having chosen to do this, we decided it was not something we wanted to do, we could still go back to the local authority; we maintain our superannuation and pensions. To make us leave a secure job, we have nothing to lose, because if it does not work we can go back. In terms of any debts, it would be the local authority who would pay them.

Peter Bunday: That is a very important point, because there is sometimes scaremongering about what would happen. We are an admitted body for pensions and continuous service, so if staff were to pass back to a local authority, their accrued service is continuous. The idea that everything is lost the minute you start on day one is not strictly true.

Cllr Butler: Part of the strategy of the transformation in Shropshire is risk management. Obviously, there is a much greater risk with safeguarding than with other things we might transfer across, and we fully take that on board. The other thing I mention is: how many

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local authorities have failed and gone into special measures? Touché.

Chair: Perhaps on that point of optimism, we will conclude our hearing this afternoon. Thank you all very much for coming here to give evidence.

Monday 10 September 2012

Members present:

Mr Clive Betts (Chair)

Heidi Alexander
Bob Blackman
Simon Danczuk
Bill Esterson

George Hollingbery
James Morris
Mark Pawsey
Heather Wheeler

Examination of Witnesses

Witnesses: **Rt Hon Francis Maude MP**, Minister for the Cabinet Office, and **Rt Hon Don Foster MP**, Parliamentary Under-Secretary of State, Department for Communities and Local Government, gave evidence.

Q311 Chair: Good afternoon and welcome to you both. We are formally beginning this final session of our inquiry into the Co-operative Council. Francis, welcome. We were expecting you—we have been for some time. Don, welcome again and congratulations on your appointment and first appearance before our Committee—no doubt the first of many that will happen over the years.

Mr Foster: I look forward to them—the dialogue and exchange.

Q312 Chair: Absolutely. The Thursday afternoon session in Westminster Hall was a brief introduction to the work of the Committee. We are now into serious issues. The whole issue of co-operatives and mutuals is an important one. It is clearly seen as important by the Government in general terms. To begin with, perhaps you could tell us how you see co-operatives and mutuals delivering local authority services. One of the striking things about our inquiry so far is that we have written to councils up and down the country. Quite a few have come back and said it is something they are interested in and are looking at. There are not many examples of practical things happening on the ground and co-operatives being delivered as working organisations. I wonder whether you would like to say a little about the generalities and what is happening in practice.

Mr Maude: I cover the development of mutuals right across the public sector. This started under the last Government, where there was a particular focus on health and social care. When the coalition Government was formed about two and a half years ago, I think there were eight public service mutuals in existence across the public sector. There are now about 50—it is a gradually rising number—with another 40 or so in the pipeline, so there has been significant growth. Across the range of the public sector, this is still relatively small but growing. They range in size from about 2,000 staff down to one of two people. I do not think you can go lower than that and have something that calls itself a mutual, but who knows?

Local authorities have tended to focus, although not exclusively, on the social care sector—more is happening in the area of youth services—and we are aware of 37 local authority projects, of which 14 are live. They have a wide geographical spread and cover a range of services including education, particularly the field of school support services, social care, social

work, youth services, housing, leisure, community safety and the environment. We have a live project involving a fire brigade, with, I think, two other fire brigades interested in going down the mutual path.

Mr Foster: I think there is a difference. The role of my Department is to support the work being done elsewhere through the *Open Public Services White Paper* and the development from that. The key issue for my Department has been very much to find ways of assisting voluntary community service organisations and SMEs so that they can become involved in the activities and delivery of services at local government level. We have done a variety of things to free up local councils that have facilitated that, removing many of the inspection regimes and reporting and administrative burdens. New freedoms and flexibilities will help—general power of competence and so on—but, most importantly, through the Localism Act, communities have a number of new rights, for example the community right to bid in relation to community assets; the community right to challenge, which is what you are specifically concerned with in terms of services; and the community right to build. In each of those areas there is provision of financial and technical assistance to organisations and groups that wish to avail themselves of the facilities provided under the Localism Act. Our job is to enable the opportunities. To some extent, the help and support is provided elsewhere, although within our own Department we are providing some of that support as well.

Q313 Chair: By the end of this Parliament, would you expect to see a scattering of services clustered in one or two particular authorities, or would you see mutuals and co-ops as a mainstream deliverer of services? Have you any idea what percentage of local authority services might be delivered by co-ops and mutuals by the end of the Parliament?

Mr Foster: At the moment, it is very difficult even to get figures as to how many such organisations are providing those services to local government, or providing local government services in that particular way. Our very best estimate is that about £11 billion-worth of services are provided that might have been provided in-house by local government in the past.¹

¹ Note by witness: This figure relates to total public sector spending on contracts with voluntary sector organisation which stood at £10.9 billion in 2009/10 (Source: NCVO Almanac)

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We are seeing a gradual increase in the number, but the introduction of the Localism Act provides new routes that make it easier for such groups to engage with their local council and start working in that way. Hopefully, we will see growth, but there is quite a lot of work to be done, both on providing support to groups that might wish to do it and regarding councils themselves, as they learn how to cope with those new opportunities that have been provided to local communities.

Q314 Heidi Alexander: You mentioned the provisions of the Localism Act. Not all the provisions of the Act have come into force. In relation to the community right to challenge, have those provisions come into force, and what has been the response so far that your Department is aware of in relation to the number of challenges that have been made?

Mr Foster: We are at the very early stages. If you look at different aspects of the Localism Act, on Wednesday we are taking a statutory instrument through Parliament to give effect to some aspects of it. It is far too early to see where we are, but what I can give you, which may be helpful to the Committee, is the fact that about 400 organisations have already expressed an interest in finding out more about the opportunities. You cannot conclude from that that 400 organisations are going to take it forward once they look at the challenges. Given some of the barriers, which we may come to a little later, they may drop out, but others may come along as well. It is very early days, but we are optimistic that there has been some progress already, and certainly 400 organisations expressing interest is a good start.

Q315 Simon Danczuk: The Mutuals Taskforce concentrated very much on employee ownership rather than broadening that out to look at other stakeholders and perhaps service users. Was there a reason for the particular emphasis on employee ownership?

Mr Maude: Yes, because that was what we thought was the thing that would deliver it most quickly. That was what we had in mind, as mutuals were employee-owned/led co-operatives. All the evidence is that when those organisations become employee-owned/led you get a dramatic improvement in productivity. Often, with conventional outsourcing to a commercial provider there will be productivity improvements but they have to be ground out, and it takes time. With employee ownership, you can see a dramatic transformation almost literally overnight. I visited a mutual that was then not vested, but it is now, where the intermediate care part of a hospital trust—people were employed directly by the PCT—was merged with the social care part of the local council. In the ward manager's office was a chart showing the rate of staff absence. It had halved from one month to the next. All the evidence is that you get a dramatic uplift in productivity. Staff morale improves dramatically—staff sickness/absence is often a good indicator of morale—the quality of the service improves, and you can put the service on a contractual basis, which generally should be done with a reducing cost base,

so you get cheaper services done better with staff who are more motivated. That was what we had in mind.

Q316 Simon Danczuk: That's good. You have drawn a distinction between the performance and quality of local authority public services and the performance and quality of services offered by mutuals. I get that. What about the distinction between mutuals and private sector companies? Why not just pass the service to a private company?

Mr Maude: I think that by going down the mutual path you get a better outcome. Not always—there are some services that are not susceptible to that. Take the example, not in the local authority area, of the organisation that administered the Civil Service pension scheme, which was being delivered in-house when I arrived in the Cabinet Office. The first thing that landed on my desk was a proposal to spend £50 million or so on a new IT system. I immediately thought that the right way to do this, rather than have another government IT project, was to see whether it could be outsourced. What we have done is place the business on a contractual basis with a new entity where the staff own 25%. They own a blocking minority, if you like, and have negative control over the operation; the Government own 35%, and we sold 40% to an external private sector provider that can put in capital, technology, management, bandwidth and expertise. The result is that there is a new enterprise in the marketplace. The cost to the taxpayer of providing the service will halve over the coming years because of the contract that has been put in place. If it does very well, the taxpayer, through the Government's continued 35% stake, will benefit as well. From my point of view, you get a better outcome with the 25% stake. It is easier to do; the staff are immediately engaged and have a genuine sense that it is their enterprise, and to that extent it is true. It is easier to get done, and I believe you deliver better results.

Q317 Simon Danczuk: Don, do you think that the delivery of certain key functions and services should be reserved for local authorities, never to be spun out to the private sector or to mutuals or social enterprises? Do you agree that certain key functions should stay in local authority control?

Mr Foster: We have already made clear that education services will not fit into this in the same way as others, although some of the services being provided, for example school meals, would still be available. We debated the development of the programme at length during proceedings on the Localism Bill. Because councils have the ability to make decisions about the relative merits or otherwise of bids under the right to challenge, they are best placed to make those decisions rather than to prescribe centrally what can and cannot go through this particular programme.

Q318 Simon Danczuk: What you are saying, Minister, is that any local authority services at local level can, if they so wish, spin them out from the local authority. You are happy with that.

Mr Foster: Yes, provided all the necessary checks apply, bearing in mind that the local authority has the

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ability to look in detail at all those bids and decide whether or not it wishes to develop a procurement process on the basis of a first proposal. One of the areas we have looked at very carefully—it may be one to which you are alluding—is that defined by some as high risk, particularly in relation to children’s services. We have looked at that very carefully to ensure that the protections for a local authority, for example to get rid of frivolous bids and so on, are there. We believe that the local authority has the ability to make the decisions itself without central Government telling it which it should and should not.

Q319 Simon Danczuk: Fair enough. My last question, which is a bit of a hobbyhorse for me, is about the accountability and transparency of mutuals, co-ops and social enterprises. How far should that go? I have seen some resistance locally in terms of Rochdale and Link4Life. I also noted some resistance when Greenwich Leisure gave evidence to the Select Committee. Do you have a view on that?

Mr Maude: For me, the issues of accountability remain the same. Whatever the basis on which the service is provided, whether it is an in-house pyramid with a bureaucratic structure—I am not using that in the pejorative sense—or whether at some point there is a contractual rather than management relationship, accountability is exactly the same. In many cases when there is a contractual relationship accountability can be even more acute and direct. The Rochdale housing example, which I visited a few months ago, is genuinely not just for employees; tenants will be able to be part-owners as well. I think that is a fabulous model, and increasingly we will see models where both staff and service users are able to be part of the ownership structure.

Mr Foster: All members of the Committee will be very well aware that, even where councils go through a procurement process, perhaps under the right to challenge, they remain responsible for those services. That is where the line of absolute accountability is. That means that those councils, as they develop procurement procedures covering a wider range of service, will need some assistance in doing that. That is why the Government have set up the Commissioning Academy, which will provide support for about 2,000 senior public sector employees over the next few years, and my own Department is providing, free of charge for all those working within local authorities, access to learning materials on commissioning.

Mr Maude: Don is right that the commissioning part is absolutely crucial. My aim is that the Commissioning Academy will get through a lot more than 2,000, because it is the Civil Service, the NHS, local government and the police—a whole lot of areas—where public services are going to be increasingly commissioned rather than line managed. Having public servants—not procurement people but mainstream officials—who are comfortable dealing with and talking to suppliers in a knowledgeable and confident way, and then effectively managing contracts subsequently, is absolutely crucial. It is generally acknowledged that those skills are in deficit in the public sector.

Q320 Bill Esterson: Don, I want to come back briefly to what you said about education. The academies and free schools are in a position to buy from whomever they wish. There are some mutuals and co-operatives providing services. Can I set that against what you said earlier?

Mr Foster: To be absolutely clear, academies and free schools are outside the local authority remit and therefore do not fall under the right to challenge, full stop.

Q321 Bill Esterson: I shall resist the temptation to ask your view of that situation.

Mr Foster: If you wish, I would be more than happy to answer it, but I am entirely in your hands.

Q322 Bill Esterson: The Chair might stop us. Francis, perhaps you would tell us about the evidence to suggest that mutuals deliver improvements in service delivery to local authorities. The Mutuals Taskforce looked at the private sector for comparison, but there did not seem to be a huge amount of evidence about the effect in local authorities, so perhaps you can tell us where that is coming from.

Mr Maude: The explanation is that there has not been very much of it. There is not much real-world data to work from. I recommend—I am sure the Committee has done this—that you talk to people who are running and working in mutuals. For me, it is always an absolutely inspirational experience. You hear public servants who are utterly dedicated and steeped in the public service ethos but who have been deeply frustrated working within the constraints of the in-house, line-managed structure. They all say the same thing. When you ask them what has changed and what is different, they all say, “We can do things; we can see what needs to be done and can just get on and do things, and do things differently.”

Q323 Bill Esterson: But can’t that be achieved by improvement in the way the existing organisational structures are set up?

Mr Maude: I am sure that in a perfect world where everyone behaves with the public interest in their mind it could, but often what is needed is for layers of decision taking to be removed. When we published our *Civil Service Reform Plan* one of the things we identified as a big inhibitor to things moving quickly is the hierarchical nature of the organisation and the behaviour within it where decisions get referred up. If you talk to people in a health service mutual who have previously been employed by the PCT, you will hear them describe how, if you have an idea, it gets put into the system and disappears into a committee. They say it is like dropping a stone down a very deep well; you never hear the splash and get anything back. In a mutual, where the public service that the organisation is to deliver is specified in the contract, if the people in the organisation see a better way of doing things, they can just get on and do it.

On the visit to the mutual that brought together intermediate care with the social care part from the council, while we were going round the ward they said, “Just pop into the storeroom.” I thought, “Well, how interesting can that be?” There were lots of racks

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of bits of kit: blood test sets; hypodermics; and lots of different things. Someone had painstakingly put a sticker on each of the boxes with the unit cost of each of the things: for example, a blood set is £13.20; a hypodermic is whatever. I said, "What's been the result of this?" and they said, "We use things much more carefully, because when people go to get something they can see that it costs money." I said, "You are a not-for-profit organisation. If you save money, you're not going to declare a dividend, profit share or anything. Why are you doing it?" They said, "First, in three or four years' time"—or whatever it was in their case—"we're going to have to re-compete for the contract, so we need to be able to cut our costs to have the best chance of winning the contract, as well as the best chance of winning business from other purchasers within the health and social care sector. Secondly, every time we save money on that, a bit more money can go into the quality of care." You are quite right that nothing says that could not happen in the old world of it being managed in-house; it is just that it does not in most cases.

Q324 Bill Esterson: But it does in some.

Mr Maude: In some.

Q325 Bill Esterson: The point is: why aren't we learning from the some and applying it to the many?

Mr Maude: I do not know. You would have to talk to the people running the organisations who would know and give you an answer.

Q326 Bill Esterson: You seem to be saying fairly clearly that mutuals will be able to deliver more efficient services at a reduced cost to the taxpayer. Does that also factor in the cost of set-up and, as you say, after three or four years the re-tendering process?

Mr Maude: The re-tendering process should not particularly cost money, if we start to do procurements in the way we are setting out. The way we have done procurements in this country has been grotesquely bureaucratic and legalistic, but it does not need to be done that way. In France and Germany, procurements are done in half the time and at a quarter of the cost. They are smaller contracts, often of shorter duration. In this country, we have done things in a very clunky way, so re-competing should not be an excessive cost. These things can be done much better in future. There are set-up costs, but the more we do it, the cheaper it will be.

The mutuals support programme has a very modest fund of £10 million for groups that want to set up a mutual. I was adamant at the outset that one thing we would not do is constantly have different groups buying the same advice from the same advisers with repeat fees. We said that where there was business case advice, legal advice, drafting of legal documentation and so on we would buy it once. We own the intellectual property; it is made available to any future group, so we can increasingly do this. There will be lots of different models of how you do a mutual, which is fine; that is how it should be, but increasingly the more we do, the more previous experience, advice, drafting and documentation there

will be to draw on so we can do this much more efficiently.

Q327 Bill Esterson: Don, do you think that mutuals are inherently more efficient and will deliver better value for money than local authorities?

Mr Foster: They have the potential to do so; it does not mean that axiomatically they will. Although we have had the co-operative movement for a very long time in this country, the mutual process has not been very widespread. That is why you have already heard from Francis about the £10 million his Department has set aside. My own Department has set aside £11.5 million to provide support and help for those organisations, whether through a mutual approach or many others that can be adopted through the right to challenge, to find out how they can do it, including some modest grant support for the early set-up stages. Equally, both of us very strongly share the view that help is needed on the whole commissioning process by local authorities and others, which is why we are providing support there. It is only when we put these two things together, the sharing of best practice and all of those things, that we will make the sort of progress we want to see, but there are already some good examples of work.

Q328 George Hollingbery: Francis, at the heart of this is a conundrum that I have not quite got my head round. If this is an incredibly efficient and highly productive way of running services, how come there are so few mutuals in the private sector that are successful? Why is it that they do not work there when they are so efficient at doing public services? Are they just overwhelmed by capitalist forces? Is it just that people want to make a profit and the two are not compatible? I am forced to conclude—I would like your comments on this—that this seems to me to be a way of dealing with sclerosis in public structures rather than just a model that produces more efficiency.

Mr Maude: Why not more in the private sector? Increasingly, you will find that in most private equity structures, for example, there will be a significant element of employee ownership. For me, a mutual is not necessarily—it can be, and in most cases so far it has been—something that is 100% owned by the staff. I talked about MyCSP, the pension administration organisation, which is 25% owned by the staff. For me, that is the minimum that stamps mutual on it, because in a company structure that gives the employee benefit trust a kind of negative control; it can stop it being sold over their head and so on. You will find loads of structures in the private sector that have very significant elements of employee ownership. Everyone goes on about John Lewis. John Lewis is John Lewis, but it is a bloody good organisation that delivers very good productivity, lower levels of staff turnover, lower levels of staff absenteeism and all of those things. It is horses for courses.

My point about mutuals in the public service arena is that we used to work in a world where there was a binary choice: you either did it in-house in big monolithic structures or you totally privatised it, or

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outsourced it, to full red-blooded commercial profit-making entities. My point is that there are ways in between those, which may in lots of circumstances be better, because you have the chance to engage staff in a way that in many places in-house they are not, because it feels remote and bureaucratic and they feel under-empowered. They also do not feel engaged when they are TUPE-ed over into a red-blooded profit-making organisation. There are ways of doing this. Go to Hinchbrook Hospital where Circle has taken over the management. Would it have been possible for an organisation owned by private equity investors to run an acute hospital solely for profit? The politics of that would have been really difficult. Because Circle is 50% owned by its staff and has a philosophy of giving a huge amount of power to frontline clinical and other staff, stripping out layers of administration and management, it has absolutely transformed the performance of what was by then a failing hospital.

Q329 Mark Pawsey: I wonder whether I might ask some questions about community engagement because of the element of democratic accountability in the delivery of local authority services, although there are lots of consumers of services who do not wish to be engaged. They simply see themselves as consumers and want the service provided without any fuss and having to consult. Do you think that mutuals and co-operatives are better able to communicate and engage with their communities than the equivalent service provided by a private contractor?

Mr Maude: It is probably more for Don than for me. I do not think it is a rule, but they may well be.

Mr Foster: Perhaps I may place on the record that our Department is looking at a range of ways in which services could be provided; it is not looking just at mutuals as the way services could be delivered. Mutuals are one way, but there are many others: bringing in the voluntary community service; looking at things like tenant management organisations; public/private partnership arrangements; and so on. The reason we are very keen to do that is twofold: it gives opportunities for members of the community to become more involved in the delivery of the services, but it is also about empowering local communities themselves. You are absolutely right. There are some members of the local community who just want the service provided; they do not wish particularly to get involved in it, but it is right that we offer the opportunity for those who do to have a greater say and possibly greater involvement in them. As we develop this model, hopefully we begin to empower more members within the community who will wish to have more of a say. I think that improves accountability as well.

Q330 Mark Pawsey: But if the mutual is simply employee-owned, what is the difference between that and a private contractor? Why should the former provide better community engagement than the latter?

Mr Foster: I would not claim to be the expert on mutuals, and I will hand it back to Francis to some extent. If you want a common-sense answer, it is simply that, if it is done as a mutual, there are more

people with direct involvement in the day-to-day running of the organisation. They are members of the local community; members of the local community will be their friends and neighbours, and they will meet them in the pubs, shops and everything else and will talk to them about it. They take on responsibility; they hear more about what the local community is saying; and help to put that into practice in the way they deliver the service, but I am afraid that more than that as a common-sense answer I cannot give.

Q331 Mark Pawsey: But would the mutual be more effective if it included other people in its management structure such as councillors and consumers? Should we extend it further? Where are the limits?

Mr Foster: Certainly, it would not be for my Department to start saying to councils which type of organisation and structure they should prefer. They would go through a procurement process and base it on some of the key fundamentals that we require, one of which is social benefit, which is very important.

Q332 Mark Pawsey: But there must be a preferred model that is the most effective one.

Mr Foster: As to my Department, I can say categorically that there is not. We believe that is down to the local councils who will continue to have responsibility for those services and will be accountable for their delivery. They will look at the various types of organisations and structures that make proposals and put them before them. That will lead to a proper procurement process, and they will make a decision. I do not think it is for us to presume that there is one type of structure that is better than another.

Mr Maude: I strongly support that. When I started on this path two and a half years ago, there was a sense in Whitehall that we needed to have a strategy, models and all of that. I felt that the right thing to do was to try lots of things. We started our Pathfinder programme and deliberately found lots of different kinds of organisations and services, some of which might be for profit—most have chosen to be not for profit—to see what worked and what did not, with all sorts of different approaches, and what the barriers, possibilities and opportunities were. That still feels like the right way to go.

One of the things we are all keen to see is the engagement of people on a voluntary basis as communities and local neighbourhoods in the provision of services that we all want to see happening. By and large, people do not volunteer to support things run by the local council. If you go to a youth centre run by the council generally, not absolutely, you will not see a cluster of volunteers around it. Go to any youth activity, a youth club or whatever, run by a not-for-profit organisation—a local church, voluntary organisation, or whatever it may be—and it will be swarming with volunteers and you will get much more engagement. For example, if you take a youth activity that has been run in-house by the council's youth service and it turns itself into a mutual, as a number are doing, it then effectively launches itself as a social enterprise.

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It will be very interesting to see how this develops. You have the real possibility that that will start to attract volunteers and get community engagement, because it will feel different; it will feel that it belongs much more to the community, rather than something that is being done by them over in the town hall. I am not aware of an evidence base for this at the moment, but it is a completely observable fact that, where youth services are run by the council and by voluntary organisations, generally the former do not attract volunteers and the latter do.

Q333 Mark Pawsey: This Committee saw exactly that procedure when it visited Torbay in respect of leisure provision as I recall. You spoke about good practice. Can I ask about the mutual support programme? How has that worked, and what input has CLG had in the mutual support programme?

Mr Maude: It operates on a very small scale; it is a small fund. I operate it extremely meanly. I chair a small board with some outside engagement. Some of the projects we support are local government ones, and CLG feeds into that so we consult them along the way, but we are at pains to ensure that we are not constantly paying the same advisers to produce the same advice to different bits of the public sector. Doing it centrally is essential.

Q334 Bob Blackman: What will the public see when mutuals or co-operatives are running a service compared with what they see at the moment? Will there be any difference?

Mr Maude: Absolutely. Go and visit particularly the ones in the health sector and talk to patients. When the staff become re-motivated they feel an enhanced sense of pride and ownership, which we should not underestimate. My big insight into this was my visit to Central Surrey Health probably two years ago. That was one of the first health service mutuals delivering services, running four community hospitals as well as primary health care in the community. All the staff I talked to spoke about being owners. I said, "Technically, you're owners but you don't have an economic or financial interest. You do not have shares you can sell; you do not have a profit share, so you're not owners in the sense of being commercial shareholders." They said, "No, but we feel like owners and we can hold our management to account." That is a powerful change in the internal dynamics of an organisation.

Q335 Bob Blackman: That is internal to the organisation, but how did that manifest itself to the public? What do they see as a benefit?

Mr Maude: The short way I would put it is that happy and more motivated staff treat service users better.

Q336 Bob Blackman: One of the risks with anything associated with this, whether it is mutuals, co-operatives or outsourcing, is that you fragment services. You have contracts, service-level agreements or whatever, that lay out exactly what is going to be provided, but equally that could damage flexibility. How are local authorities going to manage this process so they gain the benefits of better services but

do not lose the flexibility of being able to instruct staff to do things in a different way?

Mr Foster: Perhaps I may draw the Committee's attention to the very lengthy debate on this very issue that took place during the passage of the Localism Bill and the various mechanisms put in place in relation to the procurement procedures to be followed by councils if the right to challenge was exercised by individuals? One thing that was made very clear was that, if the right to challenge applied to a very small element of the service that could have the very impact you are describing, the local authority would have the ability to reject the bid and not even go forward with a procurement exercise. One of the reasons we have the very clear public value tests within it is to ensure just that.

Q337 Bob Blackman: But once a contract is in place, which might be for three, four or five years, and circumstances change and there is a requirement to change the specification, what happens then?

Mr Foster: That can happen at present, and it already does. It must be remembered that local authorities for a very long time have had the ability to find ways of delivering their services other than by direct provision. Many people will know that, for example, going back quite a long way, compulsory competitive tendering had a number of pitfalls associated with it, and a lot of lessons have been learned since those very early days that now provide the protections that are in place. What we have done through the Localism Bill is to go one step further, not in any way to prevent authorities doing what they can already do, and many have, but to introduce the right to challenge to enable community-based bodies, whether they are mutuals, co-operatives or any other form of organisation, to come forward with proposals and, at the same time, provide protection for local authorities to be able to say no, if in doing so it is within reason.

Mr Maude: I totally agree with what Don has said. All contracting authorities have always had the ability to change the terms of contract by agreement. Your second point was: what happens if the local authority wants to change the way something is done? Increasingly, when we contract for services, we should not specify how things are done. We should be specifying the what, not the how; that is, the outcome, not the process. When I was a Treasury Minister 20 years ago I published a White Paper on market testing. I put into that White Paper a photograph we discovered. It was of a pile of paper, literally the height of his chair, that was the tender document for a cleaning contract in a not very big NHS hospital. Why was it so detailed? What was being specified was exactly how the cleaning was being done at the moment, with no scope for the new provider to provide a different way of doing it. What you want to do when you contract for services is allow the most innovative, creative organisations in the market, which may be private sector, mutuals, social enterprises, or whatever they may be, to provide different ways of doing it. What you want is the outcome, and we should be much less prescriptive about the process by which the outcome is delivered.

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Mr Foster: I hope the Committee will recall the Public Services (Social Value) Act earlier this year, which made a requirement that social value should be one of the tests in procurement. That helps to provide part of the answer to your question.

Q338 Bob Blackman: What is the role of councillors in this? One of the frustrations that councillors up and down the country have expressed about external organisations with contracts to deliver services, whether they are mutuals, co-operatives or whatever, is that residents complain to them. Councillors then get on to the officer cadre. The officer cadre say, "Oh, we've got a contract." You cannot speak to the end supplier, and councillors end up very frustrated. What is the role of councillors in this brave new world?

Mr Foster: The role of councillors is absolutely crucial, and it has been underestimated for far too long. One of the reasons my Department is very keen on localism and decentralisation is to restore that responsibility to local councils so people know who to blame but equally who to praise for services that are delivered at a local level. I described earlier—we could go into more detail—the responsibilities of local councils in terms of the accountability route. Earlier this year, my Department published a very detailed document about the responsibilities and accountability route. That now makes very clear that people know what councillors are responsible for in the delivery of services. The second part that is crucially important is that the role of the councillor, with greater responsibility and accountability, is somewhat different and increasingly becomes one of the procurement exercise and the monitoring of the delivery of those services.

Q339 Bob Blackman: Do you draw a distinction between executive and non-executive councillors in that responsibility?

Mr Foster: I am sorry to draw attention again to things we have done in terms of the devolution of responsibility to councils. We are saying increasingly that we do not wish to be involved in telling councils how to organise themselves. It is not necessarily the case that there will be executive councils anyway, because those that wish to can now revert to the committee structure. It is entirely up to them to do so. Those councils that do not revert to the committee structure but retain executive council responsibility will be defined within the remit of those councillors in executive positions decided by the council, not central Government. There is already a range of different models in operation. I have my own personal views as to the structures I would like. I was not a great fan of dictating to local authorities that they had to move to that executive structure because of concerns about the role of what became back-bench councillors, but that is purely a personal view. I am delighted that the coalition Government have agreed that councils can now decide what they want to do.

Q340 James Morris: I want to probe a little further the community right to challenge. My understanding of the original idea was that it would be a radical challenge to the monopoly power of local

government. In order to empower local community organisations there will be real freedoms for those community organisations to start breaking up the monopoly control of local government. It seems to me that what we have in the Localism Act is a minute step in that direction, the unintended consequence of which might be to reinforce the power of local government control. You say that 400 organisations have expressed interest. I would be very surprised if more than a handful broke through in the context of the current provisions of the Localism Act.

Mr Foster: I should just make clear that the 400 are related to various rights provided. If you want a specific figure in terms of the right to challenge—my officials will correct me if I have got this wrong in a letter—my understanding is that by the end of July we had just under 300 specific inquiries from groups that collectively involved over 4,000 people expressing interest in this. Therefore, the 400 did not apply specifically to that. I would be misleading the Committee if I said we know what the implications will be. We are providing an opportunity. We recognise that it will take time to provide the support to communities themselves to feel powerful enough to come forward with bids. That will take time. This is new.

Q341 James Morris: I recognise it is the early stages, but if you look at the number of checks and balances, all that the Localism Act provides is the ability for a procurement process to be triggered under the direct control of the local authority, the practical effect of which will probably be to rule out a lot of small and medium-sized community organisations. Do you think that potentially that will encourage precisely the opposite type of behaviour to the one intended?

Mr Foster: That is certainly not our intention. One of the reasons we set up the system in the way we have is to ensure that local authorities cannot, without good cause, reject bids coming forward and moving to the procurement process. There are checks and balances on both sides, but we are in a situation where we have to empower councils and councillors to feel slightly more relaxed about what is going to happen. We also have to provide support and encouragement to community organisations to feel confident enough to come forward. That is why, through our work with the Local Government Association, we are providing support for councils to help them through this process. We are providing support separately through Francis's Department in terms of commissioning and some of the things we are doing, and we are providing support for community groups, because not only do we want to provide better services hopefully to the communities but also empower them through this process. It is very early days, and I am sure the Committee will understand that. Perhaps I may say, as all Ministers do on these occasions, that we will constantly keep under review the working of these new proposals as they develop and be prepared to reconsider aspects of them if the need arises.

Q342 Chair: That is a very well written piece of civil service-speak.

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Mr Foster: I have to tell you it did not say it anywhere, but I am prepared to say it none the less.

Q343 Heidi Alexander: I would like to ask both of you what you think should happen when publicly owned assets—it might be a library or youth centre—are transferred to a mutual and there is a risk of something else happening to that asset after the transfer has taken place, such as it being sold on to the private sector. Do you think there should be a contractual lock-in in place to prevent that from happening?

Mr Maude: There generally will be. What happens to physical assets is one of the issues that continually arises. There will be anxiety about assets disappearing from the public. Equally, there will be—I have come across this with existing mutuals—deep frustration where they cannot optimise the use of the assets because they do not own them. Some of the mutuals running community hospitals—there are now quite a lot—express deep frustration that they cannot get out of one property and use the proceeds to develop something different, so they are locked into what may be an outmoded model. There will always be a built-in tension and anxiety not to allow asset stripping, but equally that may prevent an innovative, entrepreneurial mutual from making best use of the value in those assets.

Q344 Heidi Alexander: On which side of that tension do you come down? You recognise that the tension exists.

Mr Maude: It will be horses for courses. I suspect it will always be the case that there is a desire to have an asset lock so it cannot be exercised at whim. I cannot remember the exact details of the division of physical assets under the new NHS PropCo, but there will be a healthy desire by entrepreneurial deliverers of services in mutuals or otherwise to use the value in those assets to the best effect for the public, and with things like libraries there will be an equally strong desire for a community lock on the use of the assets.

Q345 Heidi Alexander: Do you think there should be a mechanism in place if an asset or service is transferred to a mutual and it all goes horribly wrong? Do you think there should be a process for, say, a local authority to bring that back in-house, if you like?

Mr Foster: If you have a service that goes horribly wrong, in those circumstances the contractual obligations are not being met by the person who was given that contract. This is part of the procurement process. It was one of the problems that existed in the very early days of compulsory competitive tendering. You are absolutely right to describe that as a problem that existed in the past, but the new procurement procedures and the advice and support we have hopefully lead to a very clear understanding of what happens in those circumstances. The contract will be broken, and the local authority will then have the power to look at how to continue to provide the services. In relation to assets, the right to bid that my Department introduced in the Localism Act refers not only to assets owned by a local authority, for example,

but community assets that may be in the hands of other organisations.

Q346 Simon Danczuk: I am worried that we are at risk of simply having a polite conversation about mutuals and co-operatives at this moment.

Mr Maude: We are permitted to have polite conversations. We must not feel embarrassed about it.

Q347 Simon Danczuk: For all the rhetoric, two and a half years into your Government there is very little to show for what you propose. Very few mutuals and co-operatives are taking up the cudgels of delivering services. If you take local government as an example, it spends £62 billion annually on third-party payments. Don, you said that your Department was committing £11.5 million towards supporting mutuals coming forward. Is it not fair to say that in reality you are just playing at this?

Mr Foster: If I may say as politely as I can, you are not acknowledging that until now we have been in a situation where local councillors have had the ability to look at these ways of provision. What we have now added under the Localism Act is the opportunity for those interested in delivering the services to have the right to challenge to enable them to seek to provide those services. That changes the whole dynamic of the situation. That is where I think we will see big changes, but it will take a little time, as changes are required by local government, as the procurers of services, and by community and other types of organisations feeling confident enough to come forward.

I do not think that is playing at it at all. You are right that £62 billion is a huge sum of money that is available to local authorities for the provision of services, purchasing of items and so on, and looking at other ways of delivering them than the traditional way of doing it is something that local government is increasingly up for, if it is right for a particular service to be delivered in another way. That is where the really exciting challenge comes.

Q348 Simon Danczuk: But £11.5 million is not a lot to help this idea, is it? We want some entrepreneurial spirit and dynamism from you guys in terms of pushing this forward, don't we?

Mr Foster: With respect, the real change that has come about through the Localism Act is the ability for organisations to come together and do things. We already have evidence, in a very short period of time, of a number of organisations, admittedly in their hundreds, expressing interest, but there has not been much publicity about this and the opportunities. There are not very many examples of practice that we can share yet. It will take time, but I am absolutely confident that this will start a significant increase in the number of different ways in which services are provided. Many local authorities are already exploring different ways: public/private partnerships, management organisations, structures and so on. There is already a start there, and I think we will see much more of it.

Mr Maude: It is a fair point. Of the total addressable activity, only a very small amount has yet been done.

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We are at the very early stages; we are in the foothills. A very modest start was made under the last Government just in the health and social care sector. When we came in, there were eight public service mutuals, as far as we were aware. That has multiplied, and more is happening all the time. There is a huge amount of interest. Our Mutuals Information Service is available for a group that is interested; it can get in touch and obtain some basic information. If it develops, it can come to the Mutuals Support Programme for much more tangible help.

There are lots of inquiries. Quite often people are deterred because there is a hostile response from their managers. You should not underestimate that. Within many public sector organisations there is anxiety from the managers above the group interested in spinning themselves out as a mutual. The concerns are twofold. One is, "If they go, I will have to turn myself from being a line manager into a contract manager," which is a different skillset. Generally, the same people are perfectly capable of doing both, but it is a different skillset. The second thing is the anxiety: "Is there a job for me if these people go?" There is massive resistance. We have come across cases of people being threatened with heavy-handed action by middle and senior managers who have deterred entrepreneurial leaders and groups from going ahead with it.

Q349 Simon Danczuk: In terms of Big Society Capital, what influence do government have on that? Is that an opportunity or resource for people to draw upon?

Mr Maude: Yes, it is. What influence do we have? Very deliberately none, because we set it up as an organisation independent of Government. A trust sits over the top that preserves its social mission, but its operation is very deliberately independent of Government. It exists precisely to give support, start-up and expansion capital for social enterprises, which will undoubtedly include public service mutuals.

Q350 Bill Esterson: You commented on the expertise of line managers in becoming contract managers. What evidence or analysis have you done of the ability of people to transfer? You said it was relatively easy to pick up. I have come across examples where perhaps that is not the case. How much in-depth study have you made of that point?

Mr Maude: Across the whole public sector, not all that much; within the Civil Service, which is my direct responsibility, we do not know exactly, because there has never been a systematic skills audit within the service. One of the things we have said in the *Civil Service Reform Plan* is that we will set out for the first time ever a cross-Government capabilities plan for the whole service. It has never been done before, but one thing we absolutely know anecdotally as much as anything else is there is a deficit of commercial skills, which includes contract management skills.

Q351 Bill Esterson: In the private sector often one of the big contributors to why businesses fail is lack of financial acumen, is it not?

Mr Maude: Yes, absolutely. There are two sides to it: one is managing the contract on the contracting authority side; the other is managing the contractor in terms of the business. There is nothing that says that someone who is a good line manager is incapable of becoming a good contract manager. It will not always be the case. I think the other point you would make, which is completely correct, is that the bit most would-be mutuals miss is: do they know how to run a business? The answer is that many of them do not, but they can get those skills, and part of what the Mutuals Support Programme is about is buying in the support to give them those skills.

Mr Foster: I am slightly more optimistic about the ability of many of the people who currently work in local government to make the transition. If I could just draw the Committee's attention to a service such as building control, that used to be run solely in-house by the local authority. The Government then allowed competition. It was very difficult for the first two or three years. If you talk to people working in building control, who are now in competition with outside organisations, they are enjoying their job far more. They have raised their game; they enjoy the challenge. I have talked to many of them, and I think they have the capability to do it with help and support.

Q352 Heidi Alexander: Have you had any discussions with Ministers in the Treasury about the possibility of amending tax law to provide some relief to mutuals and co-operative delivery organisations?

Mr Maude: We have raised issues.

Q353 Heidi Alexander: Have you had discussions, or not?

Mr Maude: Treasury Ministers say, "That's a matter for the Chancellor and the Budget," in time-honoured fashion, as I would have done as a Treasury Minister.

Q354 Heidi Alexander: You have not had any joy yet.

Mr Maude: No. There are issues being raised in the wider context of employee ownership in the economy generally.

Q355 Heidi Alexander: Do you think it is worth exploring, as it could have some benefit in promoting this way of service delivery?

Mr Maude: It could do, but I do not think it is the be all and end all. Those are not the barriers; people are not deterred from setting up a mutual because of the tax treatment. It is much more cultural and behavioural.

Q356 Heidi Alexander: But it might add an extra incentive.

Mr Maude: It might, but I would not say that changes would transform the arena.

Q357 Heidi Alexander: If there were to be changes in tax relief, do you think it might be necessary to define mutuals and co-operatives in statute?

Mr Maude: It might, and that is one of the reasons I would be a little sceptical about it. Once you start to try to define these things you get all sorts of artificial

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distinctions. You can recognise and describe a mutual much more easily than you can define it.

Q358 Heather Wheeler: You have talked once or twice already about procurement issues. We have also talked about the right to challenge. Quite often, when the right to challenge comes in it is probably from a commercial organisation. In the past, they have been so much more geared up and ready to take on the issue. Is there any area where you might relax rules in procurement for mutuals to help them jump in at that point on a right to challenge?

Mr Maude: As far as it concerns mutuals, absolutely that. One of the barriers to creating a mutual is that, if it is above the 100,000 threshold, or whatever it is, it becomes subject to the Official Journal of the European Union (OJEU) rules. If it is in a market that is mature enough that the law currently says you have to go through a procurement, that could be a real disincentive. You can have all the grief of setting up a mutual and then not win the business. That is why we have made a proposal to the European Commission. A review is being carried out. Changes to the Public Procurement Directive are being debated in the Parliament at the moment. Generally, the changes are beneficial; they are about simplifying and streamlining, which is good.

When the Commission was consulting we suggested a change that would allow an exemption for employee-led mutuals to spin themselves out on a negotiated basis, with the proviso that the contract would then need to be completed in three years' time. I think of it as a sort of slipway, so you can easily go out, have a contract and give the new entity a chance to develop its skills and get established, and then compete on a much more even basis in three years' time. When I talked to Commissioner Barnier about it he was very sympathetic. He completely understood the point that if you do this you will increase the competitive marketplace very dramatically, because you make it a lot easier to have a lot more new enterprises in the market. His officials, though, took a much more purist approach to market theory and competition and felt that somehow it would dilute the pure milk of the free market. I think that a pragmatic approach gets you the best of both worlds. You get new enterprises into the market but give them a chance to develop their capability.

Heather Wheeler: You have touched on my favourite subject: Europe. Thank you very much for that answer.

Q359 Chair: We had some evidence earlier that the Italian Government already has an arrangement in place to give additional support or favour to mutuals being established in that way. Has that been mentioned at all?

Mr Maude: I am not aware of that. I am sure it is wholly compliant with the regulations, but I would be interested to look at it. The culture around procurement is very legalistic and rigid here. In the context of central Government I heard about a Government Department doing a procurement that affected my Department. Officials said, "We're not allowed to exercise judgment in choosing which

suppliers to use." I thought that, first, it was not true and, secondly, insane. We need to think about doing things very differently.

We will have a look at the Italian example. Thank you for that; it is very interesting. You need to build into the criteria at the outset a preference for employee involvement. That is a way of approaching this, which I think we should be more willing to do. This absolutely needs the contracting body, local authority or whatever it is, to want to do this. I would love to see more local authorities doing what, for example, Oldham Council is doing, which is really embracing the spirit of this approach.

Q360 Chair: But this would be only for employee mutuals, not service user mutuals.

Mr Maude: I would not rule out the latter. We will look at it all; it is very interesting territory.

Q361 Bob Blackman: Francis, you mentioned the cultural barriers preventing people from wanting to do this. What do you think those barriers are? To give you an example, this weekend, I was looking at the fact that the local authority covering my constituency operates 700 individual services. If you multiply that by 500 councils up and down the country, it gives you the scale of the services out there that potentially could come into this. What is stopping them?

Mr Maude: I would guess that it is a trade-off between job satisfaction and security. You take yourself out of being employed in the public sector, with all the security that certainly used to come with that, and you are on a contract. You have to deliver on the contract; if you do not, or the contract is breached, you will lose it. Then it has to be competed. Interestingly, when you ask people inside mutuals how it is different, they all say, "Well, we're working harder," but they also say, "We're enjoying it more; it's more fulfilling and rewarding, because we can see what needs to be done and do it." It is more freedom and people feeling more empowered and going home at the end of the day feeling better about themselves and what they do.

Q362 Bob Blackman: Don, what do you think local authorities should do to encourage employees to consider taking on mutuals?

Mr Foster: I have already seen a number of examples of local authorities that have worked with their staff to do this. In those cases that I know of, largely they have come from senior members of staff who have got a real excitement and belief they can do something differently and better for the people they seek to serve, and so on. Unfortunately, we do not yet have an attitude among lots of staff that they can do it. Part of the way forward is that, as more examples come forward, more people will say they wish to do it.

On the other side, my Secretary of State is keen to provide a nudge to local councils in terms of the way they rethink the procurement process, and perhaps reduce some of the impositions placed within those contracts, so that those who are even thinking of forming a mutual, or another way of providing services, will be less likely to be put off. To that end, the Secretary of State intends to produce in a very

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short time a myth-busting document to make very clear that it is not as difficult as you might think it is. Certainly, when it is available we will be delighted to provide it to the Committee.

Q363 Bob Blackman: Francis, the Mutuels Support Programme provides advice and help for employees who want to spin out of a local authority or public body, but there does not seem to be a similar type of thing for a community organisation that wants to take over a local service. To give you an example, in the borough where I live a number of libraries have been closed. The local authority has no interest whatsoever in the community being able to take over those services. With some help and advice, they could probably set up an organisation that would run the libraries far better, at much lower cost and preserve a community facility, but there is no help for them. Where do they go?

Mr Maude: It is more a matter for Don than me, but it is a good question.

Mr Foster: Clearly, the right to bid is not the sole answer to the question, but it has been introduced for those sets of circumstances. As I said earlier, the right to bid applies to community assets, or assets of community value, that are not necessarily local authority-owned at the moment, but it can equally apply to such assets. We have seen some fantastic examples of the way it can be done. You only have to look at the large number of village shops that have been taken over and are being run by local communities to see we can already point to very good examples of what you are describing.

Q364 Bob Blackman: There are some great services, but what I am talking about is that effectively this is a business, although it may be not for profit. People need capacity; they need help and advice on where to go. Equally, when the local authority says, "Sorry, we're not interested in you doing it; we want to use the asset for something else or sell it off," people need specific help and advice very quickly. It is going on in a range of local authorities.

Mr Foster: We have established the Asset Transfer Unit, which provides help and advice. It has already helped 1,500 asset transfers. We also provide a large sum of money. £19 million has been set aside by my Department to provide the very support and help you are requesting in terms of direct grants, an answerphone advice service, links to peer sector support systems and so on. We have systems in place to help with that, and we now have the new legislation that makes it easier for people to do it, if they want to, and the support mechanism is already in place.

Q365 Heidi Alexander: But the regulations in respect of the register of community assets have not even gone through yet. What is taking so long?

Mr Foster: They will hopefully be resolved by Wednesday, subject to a successful outcome in a statutory instrument committee. I am afraid I cannot answer why it has taken that long, but I can assure you that I have been in post for only three days, and within six days we will have got the legislation through. I hope that is some progress.

Q366 Chair: Is the mutuels advice service just for employee-owned mutuels?

Mr Maude: The Mutuels Support Programme is for employee-led and owned mutuels, but that does not exclude ones that may, like the Rochdale housing one, include tenants or other stakeholders.

Q367 Chair: The Mutuels Taskforce has produced its report. We are awaiting the Government's response. Can you tell us at this stage when the response might be available, and maybe a little about its likely nature? In looking at the response, given that the Mutuels Taskforce is very much set up to deal with the spin-offs of employee-owned mutuels, will the Government also be looking to shape their longer-term approach to mutuels, looking at other types of organisations like Rochdale or indeed community-owned mutuels?

Mr Maude: I think we can. I am not sure we are planning to do it at the moment, but it is something I am very happy to talk to Don and Eric about. As to the response to the recommendations of the Mutuels Taskforce, the standard answer in these circumstances is: shortly; it is of indeterminate length. When Julian Le Grand published the report, which I thought was excellent, I said there were some suggestions directed specifically to the Treasury rather than me, to which obviously I am not empowered to respond. The piece that it produced at the end of last year on evidence for productivity improvements coming from mutuels was a fabulous piece of work.

Q368 Chair: The issue of accountability came up earlier in our discussions. To some extent, the response was around the model of the employee-owned spin-off where the service that is going to be done is commissioned by the authority, and the authority determines the nature and level of the service and is therefore accountable. When we start moving into more community-owned and empowered ventures, particularly if the community has a real role in shaping the nature of the service, where some councils are starting to move forward quite a long way, does that change the whole issue of accountability, where the commissioning of services itself might to some extent be determined by the people who will be involved in the organisation running it?

Mr Maude: It is more for Don than me, but my two reflections on it would be: first, in those circumstances, there are two kinds of accountability. One is financial. Is the money being spent appropriately? Some kind of auditing, not heavy-handed, will be necessary to determine what is going on and what the money is meant to be spent on. That will be important. Secondly, you want accountability for the service to be to the people who are using it. They will generally express themselves fairly vigorously if they do not like what they are getting.

Mr Foster: I am sure the Committee will be aware that the Permanent Secretary of my Department at the end of last year produced a detailed document about accountability in public services generally, and made a number of key recommendations covering issues to do with regularity, propriety, value for money and

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other things. Those were turned into the document, *Accountability System Statement for Local Government*, which I recall from reading my briefing note—which has disappeared—was published in March this year. We would be very happy to provide a copy of that statement to the Committee, which I think would answer most of your questions, and obviously you can come back if it does not. We will send it to you.

Q369 Chair: The point I was simply getting at is that, in having a proper commissioning and accountability process, you do not want to squeeze out of the system the sorts of things we saw in the Supporting People programme, where ideas came up

from the organisation that was going to provide the service about what the service should be. There was a real dynamic to that.

Mr Foster: If it is helpful, we have a total of 12 pilot programmes organised by the Department to test different models of communities working with local councils in co-designing service delivery patterns so, rather than taking over the service, looking at the nature of the service. Those are under way, and we will evaluate them. We will make sure that copies of the reports and the evaluations are provided to the Committee in due course.

Chair: Thank you very much, Ministers, for coming this afternoon. Francis, we got you away on time for your next appointment.

Written evidence

Written evidence from the London Borough of Lambeth

1. *What is the difference between a co-operative council where services are supplied via not-for-profit businesses and other local authorities?*

What are the advantages of and drawbacks to providing services via not-for-profit businesses?

1.1 The premise of this question makes the incorrect assumption that co-operative councils are just about delivering services through not-for-profit organisations. In fact co-operative councils aim to rebalance the power relationship between the user and provider so that it's more equal by co-producing services with the people who use them or who live in the communities affected. That can be done whether the provider is public sector, private sector, third sector or not-for-profit. This approach, which a number of Labour-led authorities have embraced, is not about turning all services into co-operatives, and it is not intended to replace skilled professionals with volunteers. It is about giving local people choice and control over the public services they use by using local authority resources and expertise to support communities to make their own choices and use their own skills to make improvements and innovations. The proper resourcing of this way of working distinguishes it from the "Big Society" model which tends to rely too heavily on volunteers and the third sector at a time when individuals and charities are under considerable financial and time pressure themselves. The way different services work will vary, but the objective of finding new ways to hand more power, choice and control to local people remains constant. For example the Lambeth Living Well Collaborative brings together mental health (NHS and social care) service users, carers, practitioners and commissioners at monthly breakfast meetings. This provides participants with opportunities to share experience and design new systems based on what works for those on the receiving end. This has been a big success in terms of better outcomes, more integration and reduced costs because it assumes that citizens are experts on their own lives and conditions, that they are part of the solution not passive recipients of services.

1.2 Lambeth's transition to a cooperative council is born out of a recognition that public services in the UK have reached a key moment in their evolution. The last 20 years have been marked by rising levels of investment accompanied by often centrally determined measures to improve performance. This has, in many areas, improved outcomes for citizens. However, improvements in performance have not always been matched by improvements in outcomes, substantial investment has not always led to proportionate progress in service quality, and public confidence in the state's ability to spend effectively is at an all time low. Citizen expectations of public services are rising, but too often their experience of public services are disempowering. Socially excluded citizens, who are reliant on more public services, have been locked into dependency by a top-down model of public services that sees outside professionals take key decisions over large parts of their life. Over time, and over generations, this saps people's self-reliance, self-confidence, and caps their aspirations. It can also lead to longer-term health issues as the stress of disempowerment leads to ill health. These people have been locked into dependency from which they see no way out. We want to change the way we run services so these people can exercise more control and discretion over their own lives and, in that way, we can give them back self-reliance and the ability to identify and work towards achieving higher aspirations for themselves, their household and their community. There is a growing body of evidence that where citizens are resourced to design and deliver the services they receive it results in better outcomes and financial savings for the taxpayer. For example health and social care organisation Turning Point's Connected Care model involves the community in the design and delivery of integrated health and wellbeing services. Local people are trained and paid to carry out a detailed audit and with the assistance of frontline staff and commissioners, conduct a service redesign and cost-benefit analysis in order to make the business case for change. This leads to bespoke services which are inherently more efficient because the service is so closely tailored to need and the community is automatically engaged.

1.3 Prospective modelling of a Connected Care service redesign proposals in Basildon undertaken by the London School of Economics, suggests that for every £1 spent, £4.44 could be saved through reduced demand on public services, rising to £14.07 when the value of quality of life improvements are included.

1.4 These challenges have been apparent for some time, but the reduction in public spending following the Comprehensive Spending Review of 2010 has meant that local authorities can no longer continue to operate as they have. Lambeth, along with around 20 other local authorities, have established the Cooperative Councils Network. The network, and those authorities that are part of it, believe that co-operative (or co-productive) approaches offer viable and sustainable solutions to some of these challenges. It should be stressed, however, that this is not a cuts-led agenda. It can be delivered with whatever level of resources is available. Primarily, it is about empowerment.

1.5 The cooperative council, therefore, is not simply about changing the status of services from public or private to co-operative or not-for-profit. It is a means of addressing these core concerns by reshaping the relationship between the citizen and state. Citizens are valuable sources of insight and expertise, and are often best placed to identify solutions to meet their own needs or the needs of their local area. Public services currently fail to recognise this often enough. The cooperative council ambition is about putting the resources of the state at the disposal of citizens so that they can take control of both services and the places in which they live. In that sense, it is not about rolling back the state but about putting the state more directly under the

control of its citizens. It is about finding new ways in which citizens can participate in the decisions that affect their lives.¹

1.6 The means of achieving this will vary. In some circumstances co-production, bringing citizens together with staff and other stakeholders to find solutions or design services might be used. In others, communities might be empowered to identify the outcomes they would like to see in their area and budgets will be devolved to enable them to commission services to meet these needs. Where provision does not exist, or could be improved, new organisations may be set up, or existing organisations redesigned. This may include forming employee and user cooperatives and mutuals or social enterprises. We are not primarily interested in employee-led mutuals as our starting point is that we need to empower the user relative to the provider. Employee-led mutuals are an alternative form of provider-led services and, in that sense, rather miss the point of the reform.

1.7 We are currently transforming services to give citizens greater control over their neighbourhoods and the services they use. Lambeth is working with citizens to set up a youth services trust (the Young Lambeth Cooperative) to put citizens at the centre of procuring and designing youth services in the borough. Any resident is entitled to become a member of the trust. We intend that the trust will use a model of community-led commissioning to allow people living in individual housing estates and neighbourhoods to determine the specific pattern of services needed in their locality, harnessing local capacity and insight but bringing in external service providers where appropriate. This will create a highly tailored approach to tackling the problems of violent youth crime in communities where this is endemic. It will allow residents living in such communities and who are frustrated at their inability to effect change to use their energies to fight the problem rather than fight the system. By giving citizens including young people greater influence over such services we believe services will better meet local need, and outcomes for young people will improve. We are working on models of empowerment in other services, including social housing, adult care services, sustainable living, economic growth, financial inclusion, parking, parks management, environmental services, as well as an extensive community budgeting pilot.

1.8 The common thread running through the co-operative council will be the expectation that services will work in partnership with citizens, in a relationship characterised by reciprocity (ie people participate in order to secure outcomes that meet their direct needs). This way of working has benefits for the quality of services that will mark out cooperative councils from more traditional public service delivery organisations. To date, much of the UK's public service design has relied on the insight and expertise of public service professionals to identify public need and design solutions, and has overlooked the value of involving citizens and service users in identifying their own needs and the ways in which services can work to support them to live the lives they choose. The consequence has been services that are not designed around the needs of the citizen or family, but rather existing organisational structures and professional interests. The Total Place pilots revealed the inefficiencies this approach can create, and the frustration it can cause.² Moreover, opportunities for empowering families to take control of their own futures are lost as they are "done-to" rather than worked with, with consequences for eventual outcomes.³ By giving citizens greater influence in the design and delivery of services, we hope to create more effective, responsive services.

1.9 This submission has described the ways in which the different relationship between the citizen and state can transform citizens' experiences of public services. However, as already identified, public services are also being challenged around trust and accountability. It is apparent that support for public service provision is dependent on taxpayers believing the state is capable of allocating resources effectively. Transparency is therefore increasingly important in enabling citizens to understand how and why decisions are made, and to enable them to hold commissioners and providers to account. The cooperative council model recognises that giving citizens access to a wider range of information in accessible formats can help build trust among citizens, and enable them to contribute to service improvement.

2. Where services are delivered by not-for-profit businesses what difference will the local resident and local taxpayer see?

2.1 The previous caveat applies: co-operative council services are not necessarily delivered through not-for-profit businesses but are about user-empowerment through co-production. Overall, by harnessing the insights and capacity of service users, residents will experience better performing services that are more responsive to their needs. By doing more of what residents want and becoming more effective, services will deliver better value for money.

2.2 Lambeth is clear that cooperative ways of working are not always cheaper in the short-term. Citizen involvement and engagement can be resource intensive, and substantial investment is often necessary when new organisations are formed, or existing services spun out. The cost of transition needs to be taken into account. Small providers cannot always realise the economies of scale that large private or public sector providers can, although we can help them achieve a greater economy of scale by making support services (such as IT, financial systems, HR, legal advice) available through the council as a platform onto which community-led services can be anchored. However, absolute cost is not alone a full indicator of value. Over the medium-term improved service design, enhanced commissioning practice, better collaboration with

¹ The Cooperative Council, *Sharing power: A new settlement between citizens and the state*, (Lambeth, 2011).

² Total Place: A whole area approach to public services, HM Treasury, 2009.

³ See Participle's work on the Life Programme, <http://www.participle.net/projects/view/3/102/> link checked 8 May 2012.

partners, and a clearer focus on citizen priorities has the potential to deliver improved value for money for citizens and taxpayers and greater social returns on investment. By working with communities to build their capacity and resilience they will be better placed to work with one another to meet their own needs and withstand the turbulence of the current economic downturn. The whole system can benefit from this approach and there are those benefits that are realised as a direct result of the type or nature of the provider. A good example of this is if a parent gets involved in the Young Lambeth Trust, the skills they would acquire as part of that experience may enable them to improve their personal employability and achieve their wider aspirations in life, keeping the value in the community. If we contracted everything with private sector organisation, all the value of the council (community) investment would be sucked out of the borough.

3. What arrangements need to be put in place to deliver services by not-for-profit businesses such as employee-owned mutuals? More specifically, what are the barriers to establishing not-for-profit businesses to supply services; what role does the local authority have in promoting and incubating a not-for-profit business; and where does accountability lie?

3.1 In some circumstances we recognise that certain organisational models, such as employee mutuals, or user co-operatives or mutuals, can offer advantages by empowering users and staff to design or improve services, increase efficiency and enhance innovation. Primarily our approach is based on empowering users, not staff, on the understanding that the disempowerment of users relative to providers has created dependency and inefficiency. In this sense we disagree with the Big Society model which tends to emphasise employee mutuals, missing the point about empowering users. Two-way mutuals (empowering users and staff together) can meet this objective. The Lambeth Resource Centre, a day centre for learning disabled adults, brings together staff and service users in a mutual organisation to collaborate to commission and design services. The benefits are the greater involvement of citizens in the services they use, and a clearer incentive for collaboration between staff and citizens.

3.2 Through the cooperative council, citizens will play a much bigger role in designing and, in some cases, delivering services than they have done to date. This is in recognition of the fact that they are better placed than outsiders alone to identify the needs of their communities and to identify effective solutions. However, there may not be organisations already in place to deliver the services they want. The council may then have a role in working with communities, groups of staff or the voluntary and community sector to develop capacity to deliver those services. The council will also have a role in ensuring that there are sufficient sources of advice and support within the borough to enable small organisations to participate in the council's procurement processes which will need to be simplified.

3.3 Lambeth acknowledges there is a wide range of existing organisations who might be well placed to deliver public services co-operatively or work alongside the council to co-produce public services, including local businesses, charities, social enterprises, community and voluntary groups and other public sector organisations. The expertise, relationships and resources of these organisations could help to improve service quality and empower service users.

3.4 However, although this diversity of provision can bring benefits, Lambeth recognises its unique position as the democratically elected body in the borough, and its responsibility to ensure that the public interest is protected throughout the commissioning process. Regardless of the status of the provider, the council will need to ensure that public services remain accessible to all, and that providers support the philosophy and principles of the co-operative council and act in the public interest.

3.5 Effective accountability is therefore a pre-requisite for public confidence in the cooperative council. As others have recognised, accountability is increasingly complex in today's public service provision.⁴ Local councillors have a crucial role to play through scrutiny mechanisms, and as community-led commissioning activity increases, councillors are also likely to have a role in ensuring accountability at the ward level. Regulation, inspection, contracts and elections will all continue to provide mechanisms for accountability. Community-led commissioning offers a means for communities to commission the services they need, but also to decommission those that are failing. This is an immediate form of accountability. Although increasing public access to data is not enough in itself to ensure accountability, it is an important means of improving transparency and the council is interested in open-source data about all aspects of services in order to support a more participative model of budgeting and oversight of performance. Effective accountability will not be provided by the local authority alone, but Lambeth recognises its responsibility in ensuring robust accountability across the borough.

3.6 There are some significant barriers that currently inhibit the development of the cooperative council. The first of these is the current Value Added Tax (VAT) regime. Although councils are able to reclaim the VAT they have paid on their normal activities, many other types of organisation are not afforded this benefit, apart from charities. Therefore mutuals whose turnover is above the threshold have to register for VAT, and will be required to charge for VAT on sales of goods and services. Therefore, those services that spin out from council ownership will need to charge 20% VAT to those purchasing their services, and may well face competitiveness challenges if there are other non-VAT eligible service providers operating in the market, affecting their viability.

⁴ Accountability Works!, The Centre for Public Scrutiny, 2010.

3.7 A second set of barriers exist around the current public procurement rules, which local authorities are required to comply with when they procure a contract for works, goods and services above a certain value. This is intended to ensure that contracts are awarded fairly and encourage a competitive market. However, as outlined previously in the submission, Lambeth has stated its ambition to grow the capacity of citizens, local businesses, community and voluntary sector organisations to deliver public services, and acknowledges that it will need to support and help develop fledgling service providers while they acquire the capacity and skills to compete in the public services market. The difficulty experienced by new organisations, particularly employee mutuals, has been recognised by the current government through its recent request for a temporary exemption from the public procurement rules for contracts awarded to employee mutuals to increase diversity in the public services market. Technically, the procurement process doesn't stop us, but it makes it hard (essentially you have to work hard to specify contracts so tightly that you can't get any other type of provider eg you might specify that it has to be employee owned business and that x% of employees have to be local).

3.8 There are some internal barriers within the council's organisational structure and culture. Some managers measure their relative importance by the size of their budget and the number of staff they control. They may be reluctant to give these up as the council transitions to alternative models, and may actively or passively resist transformation. Other staff find it challenging to fully understand the model we are trying to develop and there have been instances of managers writing service plans that are no different to what they have always been but are sprinkled with cooperative language with talk of coproduction and reciprocity when, in fact, none of these are being delivered. The scale of the ambition is significance and is happening in an already complex environment. Organisations and the people who work for them are in general wary of change, and this is a further barrier of confidence that needs to be overcome. Some people, either deliberately or not, confuse the cooperative transformation of services with the reductions in funding. While these two things are both happening at the same time, they are independent of each other.

3.9 There are a number of principles and issues that need to be understood and incorporated in service design in order to establish the cooperative council:

- (a) Capacity: we need to build the capacity of both council employees and the community to participate in co-production.
- (b) Reciprocity: we need to make clear the benefits to staff and citizens that will result from new service delivery models. Primarily this is better outcomes and more responsive services, but it may also include other incentives such as rent or council-tax discounts for active participation.
- (c) Quality: we must demonstrate better performing services as a result of transformation.
- (d) Value: co-operative services must deliver better value in the long term, including social as well as financial value.
- (e) Accessibility: delivery models must ensure that services are accessible to all who should have a right to use them, preventing capture by one section of the community that may then try to exclude others.
- (f) Risk: to allow innovation to flourish, the council needs to adopt a different view of risk that allows us to learn from mistakes as well as from success rather than always trying to avoid failure by refusing to innovate.
- (g) Empowerment: new service models will be expected to hand more power and control to services users relative to service providers as a means of tackling dependency and unlocking aspiration and self-reliance.
- (h) Accountability: services must be more immediately accountable and therefore responsive to the people who use them.
- (i) Safeguarding: the council will retain reserve powers of intervention in case of service failure.

Again, these are examples of how the whole system can benefit—done well and fully, the shift of power will result in positive impact in other agencies and ultimately costs across the whole of government.

May 2012

Written evidence from Oldham Council

EXECUTIVE SUMMARY

- Oldham's co-operative approach does not presume that its services will be delivered through third-party not-for-profit organisations. We believe that councils commissioning not-for-profit organisations to deliver services on their behalf with no other supporting changes are not necessarily co-operative councils, because we accept that there is more to being a co-operative council than commissioning the third sector to deliver services.
- In contrast, the Oldham Model of the co-operative council is a whole-system approach geared towards fundamentally re-shaping the relationship between residents and public services. This will enable communities to become more resilient and self-reliant (therefore reducing dependency on public sector provision) and the council to deliver better social value and an enhanced leadership role.

-
- Rather than simply commissioning the third sector to deliver services on our behalf, we are working with customers and partners to redesign services which are co-owned and delivered together. This co-production, supported by improved commissioning and procurement, drives efficiency, value-for-money, better outcomes, and enhanced social value. In respect of delivering services, there is no presumption that an outsourced model will be appropriate. Rather, a broad range of different types of delivery arrangements are considered.
 - We believe that, as a community leader, we have a duty to ensure the sustainability of local public services by promoting and incubating a mixed economy of service delivery models. This includes not-for-profit organisations.
 - The advantages of co-operative forms of service delivery, including working with residents and service users to design or co-produce services, as well as commissioning not-for-profit organisations to deliver services on our behalf, can include:
 - enhanced service user and staff engagement;
 - improved social value;
 - better value-for-money; and
 - greater flexibility to adopt a service model which reflects the needs of service users.
 - We are applying these principles internally as a business through the introduction of a “business unit” ethos and practice, whereby individual services and teams enjoy increased levels of autonomy and freedom to deliver services in innovative ways. Our co-operative principles are embedded into this approach, helping to ensure that our services maximise not only the financial value-for-money that they can deliver, but also the added social value that they can create through their business practices. This is further emphasised through our “Ethical Framework”—our approach to corporate social responsibility which is seeing us lend our resources to help build community capacity, resilience and self-reliance.
 - There are real challenges for local authorities when considering the delivery of core services through third-party organisations. Elected members and officers retain ultimate accountability and responsibility for such services, but their ability to influence decisions and the management of risk is more remote.
 - In addition, there are also challenges to the public sector in respect of governance when commissioning organisations to deliver services on our behalf.
 - Oldham is actively looking at new delivery mechanisms, including co-operatives and mutuals. One example of this is in Adult Social Care, where we are exploring the possibility of mutualising part of the service. As the issues are often complex we have had to seek external specialist expertise in considering these new approaches. This can be both time-consuming and costly as there is currently a lack of freely-available advice for local authorities looking to develop mutualised services.

1. INTRODUCTION: OLDHAM’S CO-OPERATIVE FUTURE

1.1 This background information sets the context for the remainder of this submission, which details Oldham Council’s unique approach to the co-operative council model and offers our response to the questions set out in the terms of reference for the Communities and Local Government Committee’s Inquiry into the Co-operative Council.

1.2 Oldham is committed to developing a co-operative future; one where citizens, partners and staff work together to improve the borough and create a confident and ambitious place. We want all members of the community to be able to play an active part in building our co-operative borough. Put simply, becoming a co-operative borough is about everybody doing their bit and everybody benefitting.

1.3 This is our opportunity to fundamentally reshape the relationship between the council and its residents. This will mean that the council will strengthen its civic leadership role, leading by example and enabling residents and communities to become more self-reliant. We will be working in ways which give residents the opportunity to shape how services are run and how decisions are made. We will be empowering local people to take greater control over their own lives by making positive decisions for their families and their neighbourhoods. Underpinning all of this, we will endeavour to run our own business in a way which delivers the greatest possible social value for our borough.

1.4 Far from simply managing decline in a context of increasing demand for public services and reducing funding, we are being radically ambitious for our borough. A co-operative council approach is our positive response to these challenges, enabling a bright future for Oldham’s communities by enabling everyone to do their bit to create a confident and ambitious borough.

2. WHAT IS THE DIFFERENCE BETWEEN A CO-OPERATIVE COUNCIL WHERE SERVICES ARE SUPPLIED VIA NOT-FOR-PROFIT BUSINESSES, AND OTHER LOCAL AUTHORITIES?

2.1 We believe that a co-operative council approach must be about far more than the delivery of services through not-for-profit businesses. The Oldham Model of the co-operative council is a whole-system approach which encompasses a broad spectrum of co-operative working.

2.2 In Oldham, working co-operatively is not just about delivering services through co-operatives or mutuals. The diagram overleaf (Figure 1, page 7), has been developed to demonstrate the broad spectrum of different ways in which Oldham Council is working co-operatively—delivering services through co-operatives, mutuals, or other not-for-profit third parties is only one part of this spectrum, which encompasses:

Working in line with co-operative values and principles—this means conducting our business in a way which helps to make the greatest possible positive difference to our borough. For example, we've developed enhanced procurement practices to maximise the social value that we can achieve through our contracts. This has meant re-shaping our processes to explore how potential suppliers can deliver added value by, for example, offering supply-chain opportunities to local SMEs, or generating long-term sustainable employment opportunities for local unemployed people.

Residents and service users actively informing decision-making—this means giving residents the opportunity to influence what we do. For example, when we were redesigning our "Aiming High" programme for children with disabilities and life-limiting health conditions, we invited services users, parents and carers to influence how we would shape the new service, helping to make sure that it better reflected their experiences, needs and expectations.

Co-producing services with communities—this means working in collaboration with residents to deliver our services together. For example, we are leasing one of our local community assets, Springhead Community Centre, to a community group for a nominal fee. In exchange, the community group deliver key services and family activities. Similarly, our Litter Watchers scheme enables communities to improve their local area by providing residents with the equipment, materials, and protective clothing they need in order to make environmental improvements such as planting new flower beds or running community clean-ups.

Services delivered through co-operatives and mutuals—this means using different methods of service delivery, including opportunities for employees to run their own co-operatives or mutuals. For example, we're exploring whether we can transform part of our Adult Social Care service into a mutualised model of service delivery. As well as exemplifying the scale of our ambition by adopting this innovative delivery model in one of our largest and most essential service areas, this provides an opportunity for greater involvement from staff and residents, including plans to recruit a service-user as a non-executive director of the new company.

2.3 In addition, in Oldham we are adopting a "business unit" ethos and practice. This means that increasing numbers of our services and teams will enjoy increased levels of autonomy and freedom to innovate and improve efficiency. This business unit approach will help to deliver improved value-for-money by incentivising individual services to lower their costs whilst improving service quality. At the same time, our co-operative principles are embedded into this approach, helping to ensure that our services maximise not only the financial value-for-money that they can deliver, but also the added social value that they can create through their business practices.

2.4 Across the organisation, we've adopted an "Ethical Framework" which brings together our approach to corporate social responsibility (CSR). As well as conventional CSR initiatives such as payroll giving, our CSR model focused on using our resources in innovative ways in order to make a meaningful difference to people and communities across our borough. For example, our Employer-Supported Volunteering scheme is seeing our staff lend their specialist skills to help grow and develop the local community- and voluntary-sector by helping to develop marketing strategies, write business plans, improve HR practices, or improve funding revenue. Over the next three years, every member of staff will commit to three days of volunteering each year through this programme—that's around 9,000 volunteering days per year. Similarly, our Community Dividend Fund is enabling us to lend financial support to community-led initiatives which deliver sustainable and ongoing social, economic and environmental benefits, such as Saddleworth Community Hydro—a community-run initiative to produce "green" hydroelectric energy for the local community, saving around 1,000 tonnes of carbon every year. Internally as a business, we've introduced the Living Wage, ensuring that no member of staff earns less than the local cost of living, and demonstrating our commitment to being a role model for fair and ethical business practices.

2.5 The diversity of our approach, therefore, demonstrates that the co-operative council model can have implications and benefits that reach far beyond the delivery of services through not-for-profit businesses.

2.6 Moreover, just as a co-operative council approach is not limited to the delivery of services through not-for-profit businesses, we believe that councils commissioning not-for-profit organisations to deliver services on their behalf with no other supporting changes are not necessarily co-operative councils, because we accept that there is more to being a co-operative council than commissioning the third sector to deliver services.

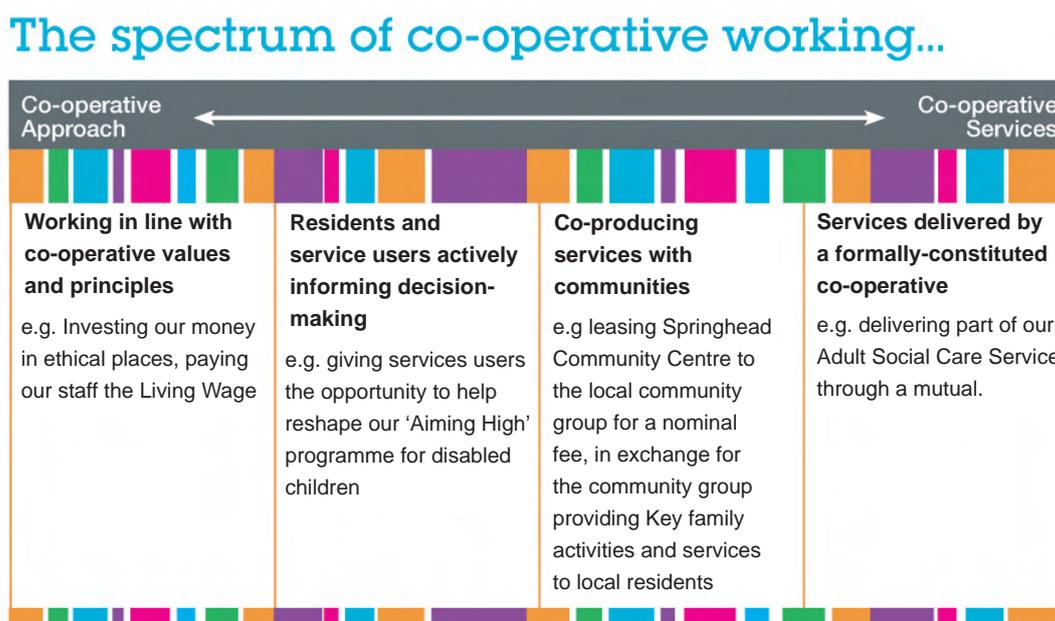
2.7 Our co-operative approach is not about favouring any one form of service delivery, but about empowering local people to take greater responsibility and to make positive choices, for themselves and for their communities. As a co-operative council, we are enabling, supporting and encouraging residents to become more self-reliant and better able to help themselves, whilst at the same time responding effectively to fiscal challenges and re-shaping our own organisation to ensure that we are a strong civic leader, delivering the greatest possible social outcomes through our business practices.

2.8 Therefore, co-operative working in Oldham is essentially about working in a way which changes the relationship between residents and public services by enabling residents and service users to become active participants rather than passive recipients of public services. This means helping to empower residents to take greater control of their own lives as well achieving the maximum social value from the resources that are available to the community and public sector.

2.9 This is fundamentally important because the ability to make further efficiencies and savings by outsourcing services will plateau. Therefore, there is a need to focus our drive for value and savings on reducing demand for services. This means supporting self-help and encouraging behaviour change, as well as exploring what new delivery vehicles could offer. Being a co-operative council enables us to address these opportunities and challenges by bringing about long-term and sustainable change.

Figure 1

THE OLDHAM SPECTRUM OF CO-OPERATIVE WORKING



3. ADVANTAGES AND DRAWBACKS OF DELIVERING SERVICES THROUGH NOT-FOR-PROFIT ORGANISATIONS

3.1 Our commissioning approach

One of the core principles driving our co-operative approach is re-designing services with customers and partners. This co-production, supported by improved commissioning and procurement, drives efficiency, value-for-money, better outcomes, and enhanced social value. In terms of determining the delivery mechanism that follows each commissioning and procurement exercise, there is no presumption that an outsourced model will be appropriate, as explained above (see paras 3–5). Rather, a broad range of different types of delivery arrangements are considered. Many of the advantages and drawbacks of delivering services through not-for-profit organisations are equally applicable to delivering services through other forms of third-party organisations, including private-, public-, and third-sector providers.

3.2 Accountability, governance and risk

We are committed to delivering services which provide the best quality, best value-for-money, and best social value for local people, regardless of whether these services are directly delivered, delivered through private-sector partners, or delivered through not-for-profit organisations.

However, as a local authority, we are not only a statutory body, but we are also proud to be a democratically-led body, meaning that we are fully and directly accountable to local people. Where we do commission external providers to deliver services on our behalf—whether these are private-, public-, or third-sector organisations—we retain ultimate accountability and responsibility for such services.

There are potentially more risks in delivering services through third-party organisations in terms of the long-term viability and sustainability of such organisations. This poses real challenges for elected members and officers, as their ability to influence decisions and the management of risk is more remote when services are delivered through third-parties. It also presents the need for a robust system of checks and balances in awarding and monitoring contracts.

In Oldham, one of the ways we're working to build resilience and capacity in the community sector is by helping to build consortia of small-scale community organisations in each district. By working collaboratively in this way, smaller community groups can pool their collective skills, expertise and resources, and potentially even bid for public sector service-delivery opportunities.

3.3 *Service-user engagement and co-production*

One of the advantages of our approach to commissioning is that it increases the number of opportunities for residents and service users to influence, co-produce and even deliver public services. Our co-operative council approach is working to transform the relationship between the public sector and the public, so that residents and service users are no longer passive recipients of public services, but active participants in the design and delivery of those services. For example, we are enabling local people to have a greater say over the services and decisions that affect them and their communities, as our work on the Aiming High programme and with Springhead Community Centre demonstrates (para 2.2 refers).

As well as engaging local people in the co-production of service design and delivery, we're working in collaboration with residents and service users to move interventions and services "upstream", to less reactive, more preventative level, helping to reduce demand for and dependency on the public sector. For example, our ongoing co-operative campaign, "Love Where You Live", is working to positively reinforce positive choices and positive behaviours by bolstering local pride and championing community action. This is a key strand of our work to manage demand for public services in the long term by promoting responsibility and self-help in our communities. Building on this local work, one of our next steps will be the introduction of "neighbourhood standards", whereby local residents and communities are asked to take pride in their neighbourhoods by taking responsibility for helping to make their local area a positive place to live.

3.4 *Service quality and value-for-money*

Our commissioning model, which includes working with not-for-profit organisations to co-produce or deliver services, can in many cases also bring improved value-for-money as well as better-quality services. This has been demonstrated in Oldham, where we have commissioned the Citizens Advice Bureau to provide legal and advice service. Previously delivered in Oldham town centre at an annual cost of over £380,000, the service have now been extended throughout the borough so that residents can access advice at local libraries, community centres and council buildings, whilst the overall cost of service provision has been reduced by nearly 40%, making a saving of £150,000.

In addition, Oldham's children's centres are delivered by third-sector providers on behalf of the council. These centres not only provide key community facilities and services, but also deliver localised District Partnership priorities and targeted work to support the troubled families agenda through a local payment-by-results methodology.

3.5 *Summary of the key advantages of co-operative and mutual forms of service delivery:*

- The council is able to retain some level of influence through representation on the board of co-operatives and mutuals. This means that we are able to help provide strategic input regarding the priorities and direction of such organisations. In the model Oldham is proposing for Adult Social Care (a co-operative/local authority trading company hybrid), the council will be able to exercise a high degree of influence through its majority shareholding.
- Equally, a co-operative model is able to offer opportunities to maximise service-user choice and control in services. There is some debate as to whether a defined group of members can always represent the interests of all service users, as this can be a highly heterogeneous group.
- In some cases, co-operative and mutual forms of service delivery can offer opportunities to make savings by avoiding or reducing some of the costs which are incurred by in-house forms of service provision. This can be achieved through a variety of mechanisms including, for example, changing staff terms and conditions, reducing absence and a establishing more flexible or reduced levels of business support services.
- There can be opportunities to trade services, thereby generating revenue and potentially utilising the profit as a dividend payment to members or reinvesting it in the business.
- Like Social Enterprises, co-operatives and mutuals may be able to access forms of funding which are not available to statutory bodies such as local authorities.
- There is an ability for the legal forms of governance and control to democratise stewardship of the organisation (especially where members are defined as, for example, staff or service users) and devolve decision making to communities.

- Co-operatives and mutuals also tend to exhibit high level of workforce commitment and ownership.

3.6 Summary of the key drawbacks and challenges of co-operative and mutual forms of service delivery:

- Like social enterprises, co-operatives and mutuals are not normally covered by the “Teckal” exemption; this means that services being transferred to a co-operative or mutual are subject to the requirement for a competitive procurement process, which can act as a major disincentive to staff looking to establish a co-operative or mutual to deliver services.
- Procurement costs negatively impact any benefit to the council in the short term and, in addition, there can be significant set-up and transition costs involved.
- When co-operatives and mutuals are established, there can be significant costs associated with setting-up the new organisation. This includes, for example, governance costs and implementation-related costs, such as procurement.
- Co-operatives can be less agile in their decision-making due to the membership nature of their governance structure.
- All small start-up organisations can be potentially vulnerable, particularly during the early stages of their development and implementation.
- Securing external funding, including working capital, can be difficult.
- The strategic direction of co-operative and mutual organisations is set by stakeholders who may, as a result, face a conflict of interest when making decisions relating to the future of the organisation.

4. WHAT ARRANGEMENTS NEED TO BE IN PLACE TO DELIVER SERVICES THROUGH NOT-FOR-PROFIT ORGANISATIONS (INCLUDING EMPLOYEE-LED MUTUALS)?

4.1 For local authorities looking to commission or establish not-for-profit organisations to deliver services on their behalf:

- Clear and easily-accessible guidance on governance, financial, human resources and legal issues.
- Clear and effective commissioning cycle which delivers enhanced social and financial value.
- Skills and capacity to redesign services effectively.

4.2 For employees and third-party organisations looking to deliver services on behalf of local authorities (including those looking to set up new not-for-profit organisations for that specific purpose):

- Access to independent support and advice to reduce the potential for conflicts of interest.
- Opportunities to explore the “right to challenge” in a constructive and collaborative way. This is currently being developed in Oldham.
- Encouragement and support to network and collaborate with peers to develop their ideas.
- Confidence and capacity to compete for contracts.
- Ability to demonstrate their performance and capability (or to be part of a wider consortium that is able to do so).

4.3 General arrangements which need to be in place to deliver services through co-operative- and mutual-type organisations:

- Ideally, a legal structure that enables newly established co-ops to deliver services on behalf of the Council without a full procurement process.
- A leadership team for the new organisation that is commercially aware and has experience of operating in different sectors.
- A shadow transition board to ensure that the new organisation is adequately supported in its new form.
- A business plan that demonstrates an understanding of the market, revenue generation opportunities and key trends, and positions the organisation to respond to these.
- It will be crucial to have the right skills and capacity in place to ensure that services can be transferred from the council to the new organisation effectively and with minimum disruption. This will involve:
 - Project management expertise to manage the business case and implementation process;
 - Legal advice from inception around the most efficient structure and incorporating the new organisation;
 - HR TUPE transfer process support (if appropriate); and
 - Financial advice to outline any tax implications.

5 RECOMMENDATIONS FOR ACTION

5.1 We welcome the opportunity to input Oldham's approach to help inform and develop the Committee's and the Government's understanding of co-operative councils.

5.2 To further develop some of the issues raised by the Inquiry, we would recommend that areas for joint working between the Government and local authorities would be beneficial. These areas include:

- Commissioning in the context of a co-operative council; and
- Exploring the "right to challenge" in a constructive and collaborative way.

5.3 In addition, there is detailed advice that is currently freely available (via the Cabinet Office, for example) to third-sector organisations and small groups looking to deliver public services, whereas there is a comparative shortage of such advice available from the perspective of a local authority looking to commission such organisations. We would recommend that further robust and thorough advice was made freely available to local authorities looking to develop new and innovative delivery models (including co-operatives and mutuals).

May 2012

Written evidence from Staffordshire County Council

Staffordshire County Council's operating model is certainly reflective of the co-operative council principles of co-operation and mutuality. The operating model is based around nine priority outcomes for People and Place and an approach in which customer insight and customer service drive policy and strategy development.

This drive for Staffordshire focuses on working together with its customers to design and deliver public services which meet locally identified needs, whilst encouraging people to take personal responsibility through enabling them to play a more active role in their local community and by ensuring they have greater accessibility to a wider range of service providers, be they social enterprises, employee-owned mutuals, businesses, faith organisations and other Voluntary and Community Sector (VCS) organisations. Therefore, the concept of the co-operative council positively fits with our one council approach to prosperity and the localism agenda.

In transforming the authority from a provider of services to a commissioner of services we will clearly identify in our commissioning plans those budgets to be delegated to a community level. Recognising that some decisions will still need to be made at a county level we will work locally wherever appropriate, with our customers and partners to co-design solutions to local need, whilst encouraging the growth of personal budgets so that individuals can take control, exercise choice and remain independent.

We will also support local organisations to take on the role of service providers. We will undertake asset transfers where this appropriately adds value to service provision and will aid the establishment of social enterprises. Our procurement processes will be simplified wherever possible and we will ensure compliance with the Staffordshire Compact in alignment with Best Value Statutory Guidance. Our support to infrastructure organisations will remain, despite the recent financial challenges, so that the VCS in Staffordshire remains vibrant and sustainable.

Staffordshire County Council supports the principle of the co-operative council and looks forward to working with DCLG to maximise its potential across Staffordshire's communities.

Responses to specific questions posed by the Committee:

1. *What is the difference between a co-operative council where services are supplied via not-for-profit businesses and other local authorities?*

A co-operative council is an authority that shifts away from being a provider of services towards a more commissioning orientated organisation. In this it will base its commissioning priorities around customer insight, enable service users to shape the design of services whilst ensuring its commissioning and procurement processes promote rather than prohibit the involvement of not-for-profit businesses.

2. *What arrangements need to be put in place to deliver services by not-for-profit businesses such as employee-owned mutuals? (a) More specifically, what are the barriers to establishing not-for-profit businesses to supply services; (b) What role does the local authority have in promoting and incubating a not-for-profit business; and (c) Where does accountability lie?*

ARRANGEMENTS

If local authorities are to play a role in encouraging the set up of employee-owned mutuals it is necessary to put in place a coherent framework of support that will assist interested employees through the process. This will amongst other aspects include enabling employees to understand and manage the logistics and practicalities of becoming a mutual, developing a robust business case and being clear about the key legal considerations implicit in this kind of arrangement, for example:

- *TUPE*—Terms and conditions of staff will continue until the newly formed mutual can review and agree these. Subsequently this exercise can be extremely resource intensive particularly if the expertise to undertake these negotiations isn't readily available.
 - *Procurement Law and regulations*—once established mutuals are not exempt from having to compete for contracts as any other provider in the market would be expected to. However, there can often be the misconception that once a mutual is established it can directly access funding from the local authority that supported its inception.
 - *Property*—Where included in any arrangement this can be an issue as legally local authorities are not supposed to dispose of property for less than the best possible price. Therefore, locking down property and other assets is something authorities need to deal with legally if they are planning to transfer any assets or property in their entirety as part of any arrangement. Furthermore, where property is involved and the new mutual entity with community interest purposes wants to change its objectives sometime in the future this could have implications if the local authority owned this property with restrictive covenants attached. So it is important that both parties are clear on the conditions of transfer and do not assume that property can simply be transferred to someone else.
- (a) *What are the barriers to establishing not-for-profit businesses to supply services?*

There are a number of significant barriers including the following:

- The necessary business skills to create, run and operate as a stand alone business are often not present.
 - There is significant time, effort and resource needed to establish a not-for-profit business where one does not currently exist.
 - The enthusiasm/drive for the establishment of the business as a stand alone not for profit organisation often comes from one person within the organisation. This can be problematic for two reasons; firstly there isn't wider ownership of the project from within the business and secondly the business is often subsequently unable to cope when the driving founder is no longer present in the business.
 - Employee mutuals are often created in those service areas where there is a vibrant market already. This could be seen as a threat by others and once established they may prove to be commercially unviable anyway.
 - Where the local authority is seen to be supporting the establishment of employee mutuals this may be perceived as unfair by the wider VCS.
- (b) *What role does the local authority have in promoting and incubating a not-for-profit business?*

The local authority has a key role in nurturing these new arrangements, which could be realised through:

- Raising awareness and understanding amongst staff of the benefits and freedoms of setting up their own not-for-profit business. This might include signposting to other good practice examples for further advice and guidance.
- Timely identification of forthcoming opportunities to establish a mutual so that staff can prepare and have the confidence to respond.
- Investing in the infrastructure to support the fruition of not-for-profit businesses locally. This could be through joint investment with other public sector stakeholders where mutually beneficial to do so.
- Ensuring our commissioning and procurement processes are accessible, transparent and exploit opportunities to commission and purchase for social value across all appropriate public services contracts.
- In supporting the co-operative council approach a local authority has a mandate to communicate the added value that has been realised as a result.

Examples of the types of support that local authorities could provide include:

- Some kind of business in a box toolkit, so that those interested have ready access to all the tools they need to develop their proposals and to reduce the cost of each project.
 - Some kind of wrap around service from the local authority which enables the business to be able to work with the local authority. This might involve creating an insurance framework so that business can buy in rather than having to sort out their own insurance arrangements. This might involve giving them easy access to legal, financial, procurement and business advice services rather than having to fend immediately for themselves.
- (c) *Where does accountability lie?*

Accountability for services ultimately lies with the local authority. Responsibility and accountability for the delivery of the services, however, lies with the provider. It is really important that the provider organisations whether they are social enterprises, not-for-profit organisations, employee-owned mutuals or commercial organisations are held to account for delivering what has been agreed and no allowance (except perhaps in the initial establishment phase) should be given for the nature of the organisation. The service user is entitled to expect nothing less.

3. *What are the advantages of and drawbacks to providing services via not-for-profit businesses?*

Advantages

- Not for profit organisations are often closer to the communities and users they serve and are trusted by the people they work with meaning they are often best placed to listen and understand people's needs.
- They can often leverage in other sources of funding traditionally not accessible to local authorities (eg Lottery).
- They often have the added value of being able to secure and deploy a range of skilled and dedicated volunteers.
- They can sometimes offer better value for money and a greater quality in service provision.
- Often they are found to be more approachable and accessible to users as they do not come with the local authority label.

Drawbacks

- A potential loss of control as commissioners place a greater emphasis on managing the performance of providers.
- Need for a greater investment in commissioning support as local authorities may not have the staff with the appropriate skills, mindset and expertise to deliver this agenda.
- There could be difficulties if/when such businesses fail and there is the expectation that the local authority can intervene and assist. However, in reality it might be that it no longer has the staff resource or expertise to help deal with the problems.
- Not-for-profit organisations may be pushed out of the market by more highly skilled and experienced tender/bid writers within larger private sector organisations.

4. *Where services are delivered by not-for-profit businesses what difference will the local resident and local taxpayer see?*

- Local people should experience a more personalised approach, tailored to their specific needs and/or the needs of their local community.
- Greater diversity of services available in the marketplace which should ultimately allow individuals to exercise preference and control over the services they receive.
- Services can be delivered without the sometimes negative associations that come with the local authority badge eg greater bureaucracy.

May 2012

Written evidence from the Institute of Local Government Studies, University of Birmingham

THE COOPERATIVE COUNCIL: HOW SOCIAL ENTERPRISES CAN PROMOTE USER AND COMMUNITY CO-PRODUCTION OF PUBLIC SERVICES

SUMMARY

This note focuses on one particular facet of the “Cooperative Council”, namely its promotion of user and community co-production of public services. We argue that this will require a major drive to work through social enterprises as intermediary organisations, since users and communities have diverse needs which cannot and will not be well served by dealing directly with local public service providers like councils. Social enterprises can therefore help local councils to mobilise large scale resources in the community which are currently untapped—and can help to harness these resources in ways which are more likely to improve quality of life outcomes for users of council services and other local citizens.

THE CO-OPERATIVE COUNCIL AS A CO-PRODUCING COUNCIL

By “co-production”, we mean “Professionals and citizens making better use of each other’s assets, resources and contributions to achieve better outcomes or improved efficiency”. This means focusing on what users and communities can positively contribute (the “assets model”, rather than what they need to get from public services (“the deficits model”).

As the London Borough of Lambeth has argued in its drive to become a “Co-operative Council”, co-production is at the heart of a new co-operative relationship between a council and its citizens. Indeed, Lambeth might be described much more accurately as the “Co-production Council”, since that principle has driven its overall strategy much more than a commitment to any particular form of service delivery, such as co-ops or mutuals as providing organisations.

However, in practice there is a very strong link between the principle of co-production and the strategy of using co-operatives and mutuals to deliver services. This is because successful co-production does not usually

arise and grow spontaneously—it needs a set of intermediary organisations which can capture the interest of users and other citizens in the co-production approach and then match the offers which these potential co-producers are prepared to make to what other service providers actually need—whether those service providers are in the public, private or third sectors.

Research which the Institute of Local Government Studies at University of Birmingham (INLOGOV) has been undertaking with Governance International, commissioned by the Directorate of Social Care and Inclusion at Walsall MBC, has already highlighted that the mapping of the “assets” and potential contributions of service users is not easy. (And, of course, co-production is not simply about getting service users to co-produce—there are very large gains to be had from getting ALL applicants for services to consider working with the council as co-producers, even if they do not themselves turn out to be eligible for the service for which they were applying).

Our argument in this submission is twofold:

- The mapping of the assets and potential contributions of service users and other citizens in the local area is most likely to be done successfully by social enterprises, working with the council; and
- Social enterprises are much more likely to seek out and make best use of the potential contributions of service users and other citizens in their core style of working than are public sector provider units or private firms.

We look at each of these two arguments in turn. However, first we need to explain the fundamental assumptions behind the co-production approach.

CO-PRODUCTION: TAPPING THE “ASSETS” AND POTENTIAL CONTRIBUTIONS FROM USERS AND COMMUNITIES

Our research with Walsall MBC has been based on the assumption that every person in every community has capacities, capabilities and assets and that their quality of life is at least partly dependent upon whether they are able to make effective use of them. Capabilities refer to what “people are able to do or able to be—the opportunity they have to achieve various lifestyles and as a result, the ability to live a good life”.⁵ Individuals who are able to contribute to society feel self-sufficient, esteemed, and connected to their social circle. Moreover, the community they live in will be more cohesive and healthy. Strong communities are places in which the capabilities of residents are well-known and utilised.

However, social care (and the wider welfare state itself) has often started from a different set of assumptions, in which potential service users are essentially seen as people with “deficiencies” and for whom these “deficits” represent “needs” which social care services can fill. Where a community largely focuses on the deficiencies rather than the capacities of its members, weak communities are a natural consequence. Here, the capacity of residents to make a fundamental contribution to community wellbeing is not understood and not built upon.

This deficiency focus largely arises from concentrating on the services which individuals need to compensate them for the negative aspects of their lives. Needs in this context are seen as arising from problems and shortcomings. Whilst it is clear that every individual has needs, it is essential also to see that they have unique capabilities and skills. A positive spotlight concentrates on the attributes that give rise to or can be built up into a capability to contribute positively to their own wellbeing or that of others.

The danger of the standard “problem focused” or “needs-based” approaches is that they can have negative effects even when guided by positive intentions. They force professionals and citizens to highlight the challenging issues an individual faces in order to attract resources (a “glass half empty” approach). In this process, people are dealt with as potential clients and passive consumers, not holistically as people. At best, a needs based focus inadvertently creates a one dimensional profile of the individual assessed—at worst, it creates a self-fulfilling prophesy in which people are judged to be incapable and become victims of “learned dependency”.

By using a capability-based assessment tool, it is hoped that individuals can be recognised as citizens and producers (a “glass half full” approach), focusing on what they can do for themselves and others. If done effectively, it is hoped that this can transform them from passive recipients of services (which they have little or no role in determining or deciding) into active participants, engaged in activities they desire and able to utilise their full set of attributes for positive ends. The new capabilities assessment being developed at Walsall MBC therefore seeks to maximise the realisation of individual and community potential—an approach which the Marmot Review has highlighted as critical in reducing health inequalities and improving health and wellbeing for all.⁶

MAPPING THE ASSETS AND POTENTIAL CONTRIBUTIONS OF SERVICE USERS AND OTHER CITIZENS

Our research has highlighted that it is not easy for existing service providers to move to a co-production model of public service. That is why social enterprises are likely to be key in achieving this paradigm shift.

⁵ Anand, P, Hunter, G and Smith, R 2005. “Capabilities and well-being: Evidence based on the Sen-Nussbaum approach to welfare”, *Social Indicators Research*, 74: 9–55.

⁶ The Marmot Review—“Fair Society, Healthy Lives”, Strategic review of health inequalities in England post-2010.

The barriers to a co-production approach can readily be seen by considering what successful co-production entails. Mind (2004) suggested that, in trying to find out what people might do that would contribute positively to outcomes in the area, it is important to take an approach which is:

- supportive, recognising that many people are not entirely sure (or even aware) of the skills and resources they have which might help them to make useful contributions to outcomes in their area;
- practical;
- flexible—staff and organisations need to be enabled to experiment;
- fun—people are often polled and asked to fill out forms that they find off-putting. A capabilities assessment should not be seen in this way. Instead it should educate and excite the individual about the talents they have and what they can offer the community;
- cost-effective; and
- enabling change—capabilities conversations, and the subsequent processes through which their resources are utilised, need to allow a fundamental culture change in how individuals, social workers, personal assistants, and the community view themselves and each other.

This list immediately highlights that current models of service provision in the public sector—and the models which public sector commissioners embed within the contracts that they let—just don't get it. They generally contravene several—sometimes ALL—of the prerequisites in this list.

In our work with Walsall MBC, it has become clear that the mapping out of the capabilities of individuals (many of whom are vulnerable and lack self knowledge and self esteem) has to be a sensitive, imaginative and unhurried process—hugely different from the stressful, intrusive and often rushed “needs assessment” which is carried out by social care services in most councils nowadays. What is needed in order to divine the capabilities of service users and applicants is much more akin to what is done in the “support planning” process which social care recipients go through. However, even here this usually focuses on finding services which will meet the needs of the service user, not on finding out how they can help themselves and others.

Key here is that the assessor undertaking this stage of the assessment would not simply be seeking to map what the person could do but rather would be seeking to work with them to build their confidence and enthusiasm to become more actively involved in co-producing better outcomes for themselves and for others—so there should be an element of fun, too. The process will need to be seen as part of a co-creation exercise, in which the person undertaking the assessment works closely with the potential service user, their carer(s), personal assistant and any other relevant people who the potential service user wants to involve.

In our work, it has emerged that this detailed “user offer” might best be done by “community linkers”, who will not be traditional social workers, nor even necessarily community social workers—but rather will come from a wide variety of professional backgrounds. The critical element will be their personal skills to carry out this task in an empathetic way, not the background from which they come.

In Walsall, we are focusing on ways in which social enterprises can provide expertise in this process, which is generally not available in most services provided by the council itself. The staff concerned need to be able to work with service users to develop an in-depth “Capabilities Offer”, which delves into areas where the individual is keen to make a contribution, to co-design what this contribution might entail, and to clarify the details of conditions in which this should take place. However, the key achievement in this second stage will be that at least one contribution is identified that the service user is willing to make and that this contribution can be linked to a person or an organisation who will benefit from this contribution. This second stage needs to be carried out by a “community linker”, who is adept at enthusing actual and potential service users about the opportunity to make better use of their resources and capabilities. For this to work convincingly, it will also be important that the “community linker” is familiar with the sorts of opportunities which exist locally for people with particular aptitudes, skills and experience.

Our work with Walsall MBC has already uncovered that these “community linkers” already exist but up to now have not been properly made use of in the service system. They are often in local community organisations or voluntary organisations; sometimes in local housing associations; occasionally in council or NHS services (although typically they do not currently get scope to use such skills in these organisations). In order for this work to be done systematically for a large body of service users (and for all future service applicants, in all council services), there needs to be a co-ordinated, quality-assessed cadre of people who can do this work and who embed the learning they get from their experiences in the practices and policies of their organisations. It has become clear in Walsall MBC that this is likely to mean working through social enterprises, both existing (eg some entrepreneurial housing associations in the area) and new organisations, specifically set up to undertake this work. Some of these are likely to employ existing staff from the council (and from other local public services, such as the NHS), and indeed there is scope for some “spin-offs” from the council and NHS in the form of mutuals and co-ops, but there is likely to be considerable variety in the organisational forms which spring up to undertake this work.

SOCIAL ENTERPRISES AND THE CO-PRODUCTION MODEL OF PUBLIC SERVICES

In authorities which adopt this user and community co-production approach, a radical culture change will be needed—this has already been recognised by authorities such as Lambeth and Walsall, which have explicitly

declared that they are setting out on wholly different paths to enabling high quality outcomes from public services.

A major part of this culture change will be linking the public services commissioning by the council to the community. In particular, the assets and potential contributions which service users and other citizens are prepared to make have to find a home—they have to be snapped up by individuals, groups and organisations in the community which can make genuine use of the “capability offers” which service users are being encouraged to make. This is almost entirely new territory for most public agencies—staff simply do not have experience of doing it and, indeed, have not even realised it could or should be done. That is where social enterprises come into their own—they already have experience (of course, not always successful experience) of making use of the offers which people in the community are prepared to make, finding a way of matching them to what others need.

Our work at Walsall suggests that not all social enterprises are likely to be good at this, and that some new social enterprises are likely to spring up in order to focus specifically on this kind of work, with staff who have real skills in this field—skills which up to now have typically not been recognised nor particularly valued. (Such social enterprises will often have some features in common with some of the “brokerage” activities which are already becoming common around the social care personalisation agenda—although the challenge in co-production is rather higher than just finding a local service provider for a person with an individual budget). The work will be demanding—if necessary, the community linkers will need to accompany the individuals with whom they are working and act as an advocate for them as they begin interacting with different people, projects and organisations. Throughout this process the “community linker” would be encouraging and enabling both parties—the service user making the offer and the organisation to which they will be making the offer—to want to become involved.

A number of ways of matching the “user offers” to available opportunities are already being explored. They include a range of variations on the concept of a *Community Marketplace*, which entails entering the information collected in the assessment process into a register which records both “capabilities” and also “seeking help” requests. Eventually, this will almost certainly be a computerised register. We are also exploring the potential for creating an open online citizen portal where any individual can enter and update their information, making it clear what their “user offer” is and what they are in turn seeking. Clearly personal data protection issues have to be handled appropriately in such approaches. Other approaches being explored include variants of the timebanking concept, “activities circles”, local “speedmatching” events, “taster sessions”, and a widening of the concept of “personal assistant”, so that, for example, some users can play such roles for others in specific activities.

The importance of social enterprises here is twofold. Firstly, it will be essential to recruit as “community linkers” a group of local individuals (following appropriate training) who have a strong presence within the community, who can accept responsibility for the assessment process and be persuasive in ensuring that care applicants buy-in to the new approach. (Once the project is up and running, individuals who have successfully passed through the assessment process could themselves be involved in advocating the positive effects of getting involved in the various projects—and become community linkers themselves.) It will be important to build up a team of “community linkers” which includes peers from all backgrounds, to ensure that the approach spreads quickly throughout the whole community. In particular this will be critical in getting to “hard to reach groups”.

Secondly, strong overall coordination of these volunteers will be crucial to ensure they undertake the tasks appropriately and are aware of all available opportunities. Incentives will probably be needed to ensure the sustainability of the approach, including keeping up the level of enthusiasm of existing participants and attracting new people into the scheme, so that the willingness to co-produce is continually refreshed. Moreover, there will be huge potential for developing the role of “community linkers” so that they can take on wider roles, working with other parts of the Council, ensuring that many other services, not just social care, take similar co-production approaches with service users and other citizens. The importance of this co-ordination and dissemination role requires that it is taken seriously as a main focus for the organisations concerned, not just a by-product of the other activities. It is clear from our work in Walsall MBC that this role will often be more focused and successful if it is carried out by local social enterprises.

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**Supplementary written evidence from Institute of Local Government Studies,
University of Birmingham**

**THE LIKELY IMPACT OF THE COMMUNITY RIGHT TO CHALLENGE ON THE DEVELOPMENT OF
CO-PRODUCTION AND CO-OPERATIVE APPROACHES**

SUMMARY

The Community Right to Challenge may encourage a wider range of providers to consider bidding to run council-purchased services but is only a weak version of the full “challenge” which might have been enacted. The full implications of the Community Right to Challenge will only be evident when we see how councils

choose to respond to community challenges—local authority procurement procedures may smother any potential benefits which the Community Right to Challenge might promote. Moreover, where a council is not minded to externalise a service, the cards are stacked in its favour, even if the community challenge is well thought out and passionately pursued—the asymmetry of information means that would-be external bidders will be relatively easy to fob off.

The provisions in the Act on Community Right to Bid are disappointingly thin and do not address three core issues. First, the importance of keeping distinct the ownership of public assets and the use of public assets has not been thought through. Second, this is a “small place” Bill, not a “Total Place” Bill—and the connections between these two agendas is almost invisible. Thirdly, there is little consideration of the role of community assets in the economic development/city competitiveness agenda, which is meant to be high priority in the Government’s policy agenda.

INTRODUCTION AND CONTEXT

The “Community Rights” agenda is potentially a highly innovative part of the Localism Act, breaking sharply with the centralist traditions of British public policy. In doing so, it appears to hark back to the community development movement of the 1960s and early 1970s in the UK, which experimented with a variety of ways of mobilising local people in civic activities. However, part of the catchy resonance of this approach derives from a very different source—its “sound-alike” relationship to the “right to buy”, which worked so well for the Thatcher administration a generation earlier in council housing. The former driver is essentially one which builds on community co-production of collective outcomes, while the latter focuses upon production of individual outcomes.

While Labour questioned the “localist” credentials of parts of the Act, such criticisms can hardly be levied at the “Community Right to Challenge” and the “Community Right to Bid”. These provisions certainly compare well with the relatively weak “community rights” reforms of Labour in its 2006 White Paper and subsequent Local Government and Public Involvement in Health Act, where one of the flagship policies, now largely forgotten, was the so-called “Community Call to Action”.

Nevertheless, it will be important to reserve judgement until we see how the provisions in the Act are actually utilised at local level, as different parts of the Act come into effect at different times, following the publication of Government regulations.

The way the Act is actually implemented will be critically important. As the LGA (2011) has commented, third sector organisations have already got the right to bid for the provision of public services (at least, if they pass certain vendor qualification tests)—consequently, these new rights will only be meaningful if they are backed by local Government procurement systems. Will public procurement, in practice, make it easier than before for third sector organisations to bid successfully to make full use of their local expertise in providing the niche services for which they are especially appropriate? Urban Forum research has suggested that many community groups are likely to find that activating these provisions will simply be too resource intensive for them to consider challenging or bidding. If this is the case, the stimulus of the Act to social enterprises will be minimal.

There is, of course, another narrative around this part of the Act. As Hazel Blears has commented (http://www.civilsociety.co.uk/governance/news/content/8086/localism_bill_passed_to_public_committee), if this Act simply opens the door for more externalisation, so that large-scale commercial firms end up being the main gainers, and the potential of local niche providers is not reaped, then it will not only be seen as an act of trickery but may also result in significantly worse public services than were being delivered previously by the public sector.

A further community right, the “Community Right to Build”, allows local people to hold a referendum to approve small local developments (up to 20 houses), without the need to go through the normal requirement for planning permission. For developments that benefit their community, including housing, local shops and community facilities. This is rather different in character and is not further considered here.

IMPLICATIONS OF COMMUNITY RIGHT TO CHALLENGE

The Right to Challenge has been seen as a successor to the “Duty to Involve” (introduced by the previous Government), moving away from its more top-down approach. Indeed, the Government has presented this provision as part of its aim to mobilise the “Big Society”, making greater use of the potential of citizens and third sector organisations to achieve “bottom-up” change.

The Community Right to Challenge may indeed encourage a wider range of providers to consider bidding to run council-purchased services. For example, registered housing providers will have the opportunity to support their tenants in bidding to take over local services such as rubbish collection under the Community Right to Challenge. On many estates things like rubbish collection are a constant source of complaint and the chance to improve the service would be welcomed by many tenants seeking to improve their environment. While some social landlords will welcome this, those who are providing housing services on contract to the council may, of course, themselves be challenged by tenants, who would then have the opportunity to bid for

some of these services (www.insidehousing.co.uk/need-to-know/legal/build-community-strength/6513154.article).

Moreover, the Act has the potential to override the rigidities of local geography. The cities and decentralisation minister, Greg Clark, initially suggested the Bill will help charities serving “virtual communities” (eg people with disabilities) that cross council boundaries—they could challenge to provide services across bigger areas (www.thirdsector.co.uk/channels/Governance/Article/1049403/Consultation-Localism-Bill-within-weeks/). This would, of course, be administratively complex, unless the councils in question were already merging their procurement teams or working closely together—this is certainly happening in many parts of England but is still not the norm. It is not clear how this would work—this aspect of the Act has had little attention so far.

Interestingly, the version of the Community Right to Challenge which appeared in the Bill and then in the Act is not the “full challenge” which might have been included—it only includes services which the local authority is currently providing, not those which citizens consider they ought to provide, so that it will mean much less to councils which are already “lean and mean” in the services they provide and will be most significant in councils where there is a large range of service provision. Clearly, there are political implications to this—this provision of the Bill is likely to be most challenging to Labour-controlled councils, particularly those which are having to introduce particularly serious spending cuts (ie much of northern England), and may be rather nugatory in Conservative-controlled councils which have low levels of service and are being relatively protected by the grant settlement (ie much of the south-eastern part of England).

Moreover, in many respects the Act does not go as far as it might. Indeed, it is presented by some as “the thin end of the wedge” for community involvement and for more localism in public services, which can be built upon later. Meanwhile, others, such as the New Local Government Network, have called for a more radical approach, in which “the right to challenge” would be opened up to apply to the whole public sector, including Whitehall departments and Government agencies, eg the Work Programme and crime prevention programmes. Under such proposals, community organisations or local authorities could submit an “expression of interest” wherever they felt they were able to provide a service at lower cost or higher quality. NLGN Director Simon Parker has commented: “Ministers should not have one rule for councils and another for their own departments” (www.publicnet.co.uk/news/2011/01/18/call-to-make-localism-bill-more-radical/). NLGN also argues that the Act only covers policy within CLG’s remit, with a strong emphasis on planning and housing—it does nothing to integrate localism across the rest of public services in England. Current reform programmes in Health, DWP and Education do not appear to have localist principles at their heart—the Community Right to Challenge should be extended to all these areas, too.

The provisions in the Act for local authority staff to challenge partly parallel the Right to Request and Right to Provide given to NHS staff in recent years—although, as APSE (2011) has pointed out, the Act does not specify sort of organisation employees should form to use the Community Right to Challenge, so that in reality the new right could see public workers setting up “for profit” companies to run local services, rather than the co-operatives or mutuals which Ministers have talked about. Moreover, the comparison between NHS and local Government approaches highlights the disjointed nature of the thinking behind the Government’s approach to public services. This could have been an opportunity to reinforce the agenda for “joined up services”, by giving both NHS staff and council staff an opportunity to bid for each other’s services (particularly if they form a consortium or joint social enterprise). Indeed, the Secretary of State’s reserve powers within these provisions of the Act would allow this but there is little sign of such coherent thinking in Whitehall or Westminster.

As in so many parts of the Act, there are conditions attached to the “local” nature of the Community Right to Challenge. In fact, the community may NOT have the right to challenge, as the Secretary of State may choose to exclude certain services. Moreover, the “community bodies” which have the right to challenge are explained as any body which carries on its activities primarily for the benefit of the community, but this may therefore exclude some organisations which, in spite of very active community intervention, have a core business which does not meet this criterion, eg many registered landlords. As the Act does not restrict the Community Right to Challenge to bodies which have a local connection with the area of the council concerned, it is also possible that bodies which are largely driven by interests in other council areas (even other parts of the country) may issue this challenge and seek to take over local services. (This possibility is all the greater as members of community organisations are under no apparent obligation to declare any conflict of interest—such as also working for an organisation that would wish to tender). While these extensions to “wider organisations” may not be not unwelcome in themselves, they rather undermine the label of “Community Right to Challenge”—it might more appropriately be called a “Third Sector and Public Sector Staff Right to Challenge”. Rather than directly promoting user and community co-production of public services, they are more about widening the organisational forms through which professional services are delivered.

After an expression of interest, the council will be under a duty either to accept or reject it. Rejection can only be on limited grounds, set out in regulations by the Secretary of State. A key issue the local authority will be required to consider is whether the challenge, if successful, would promote or improve the social, economic or environmental well being of the authority’s area. However, there is a clear potential here for conflict of interest, since a council is likely to consider that its current services and decisions already are designed to promote and improve the well being of the area.

While third sector organisations in the local area are likely to see themselves as well placed to make a bid to run these services, because of their close knowledge of local needs, opportunities and potential resources, there are current pressures on councils to decrease their procurement costs, eg by making contracts larger, increasing the length of contracts and passing on higher risks to contractors. The Government's Green Paper on *Modernising Commissioning* hinted at these pressures, all of which are likely to impose major disadvantages on small local third sector organisations seeking to bid to provide public services, but it did not commit to taking any steps to counteract them and the *Open Public Services* White Paper in 2011 offered little progress in this regard. Moves toward more consolidated procurement would be likely to greatly weaken the importance of the Community Right to Challenge in practice.

The full implications of the Community Right to Challenge will only be evident when we see how councils choose to respond to community challenges—and, of course, what guidance is given by the Secretary of State in relation to such responses. The Act does not determine in detail how any subsequent procurement exercise should be undertaken, and this will be a critical factor in determining how much change is actually instigated by this provision of the Act. If councils set minimum standards of economic and financial standing and/or professional and technical ability, this may rule out the very people or organisations who triggered the challenge in the first place and leave the field open to larger or established providers. While the Act allows for legal challenges from the bodies submitting the expression of interest, service users concerned about future provision, staff and unions, and bidders in the procurement, such legal challenges are unlikely to be of interest to community organisations.

Nor does the Act entitle those making the challenge—eg residents or tenants or service users—to be involved in the design of any service specification which is put out to tender, which again blunts the intent behind this provision. ACEVO (2011) has proposed a mandatory “right to voice” for service users, entitling them to information and, where appropriate, advocacy, based on Government-established explicit minimum standards for information, advocacy and independent brokerage support, targeted at the most marginalised and vulnerable, for each public service commissioning area. This “community right” has not been addressed by the Government and, indeed, it could be argued that the abolition of the “duty to involve” has actually reduced the “right to voice” of local service users.

It may be that some councils will respond to community challenges by setting up a version of a Best Value Review. This would enable the council to determine whether to market test the service or, if it is already externalised, how to tender it when the contract next becomes due. Such an approach would be thorough and would allow the third sector a full opportunity to bid to play a role in services—but it would, of course, be expensive.

Clearly, such a thorough approach is likely to be unusual. Where the council is not minded to externalise the service, the cards are stacked in its favour, even if the community challenge is well thought out and passionately pursued. The asymmetry of information means that would-be external bidders are relatively easy to fob off—this was clearly demonstrated under the Best Value regime. Where the council is relatively open to, or even in favour of externalisation, the procurement process is likely to favour larger, well-resourced and experienced providers—and this will put community groups, parent groups, user groups, etc. at a very significant disadvantage.

At the very least, the Bill will remove some barriers to civil society getting involved in service commissioning and delivery—getting onto the tender list for council services has often been a major barrier. However, the potential for getting beyond this and actually being able to bid successfully to run a service will clearly depend on the capacity of the third sector, which is quite patchily developed across services and across geographical areas (Bovaird *et al*, 2010). The sector will therefore require support, advice and even, in some cases, significant financial investment—this is not a “resource-free” initiative. Will the loss of funding, including seed funding, undermine the ability of voluntary and community groups to participate in this agenda—or will this agenda actually serve to rejuvenate community groups, as Eric Pickles has argued? Presumably with these issues in mind, there is a provision in the Act giving the Secretary of State the power to provide support, assistance and guidance to groups that submit an expression of interest (or, indeed, to bodies other than those expressing an interest)—it is still unclear how this will work.

In particular, the Government needs to consider the danger that cuts to advocacy and advice organisations and legal aid will seriously reduce the ability of marginalised and vulnerable people to use the new right to challenge. A joined up Government would not give rights with one arm, while another removes the means to use them.

Part of the infrastructure which will be essential to making practical the right to challenge will involve appropriate risk management and insurance frameworks—Paul Emery of Zurich Municipal has cited a survey which suggested that twice as many people thought that councils should retain responsibility for delivering public services as thought that local people should have more responsibility for them and commented that “... it's highly unlikely that more people will come forward to run services, set up their own schools or volunteer with a local charity if they think that there will be some personal risk to them” (www.civilsociety.co.uk/governance/news/content/7949/localism_bill_will_remove_barriers_for_civil_society). This could be a very significant brake on the potential of the Act to stimulate more community co-production of public services.

Moreover, there tends to be a “life cycle” phenomenon in both service provision and in the level of activism and innovation displayed by third sector organisations. Consequently, we can expect that even enthusiastic and capable community groups and social enterprises who succeed in winning contracts for public service will eventually experience rocky times, as they seek to update services in line with changing needs and to join them up with an ever-changing constellation of other services needed by residents. As Stuart Etherington has pointed out, local Compacts are likely to be particularly important in protecting the third sector when relationships between local Government and communities don’t work out.

IMPLICATIONS OF COMMUNITY RIGHT TO BID (ASSETS OF COMMUNITY VALUE)

The principles and potential benefits of community ownership and management of public sector assets were thoroughly analysed in the Quirk Review for CLG (Quirk, 2007). Since then, there has been a round of reviews in local Government, usually in close liaison with the local third sector, to explore the potential for change. While welcome, these reviews have often been slow, cumbersome and short on action. It is therefore welcome that the Government wishes to inject some more speed and dynamism into this process. However, the provisions in the Act are disappointingly thin and do not address the three core issues. First, the importance of keeping distinct the ownership of public assets and the use of public assets has not been thought through. Second, this is a “small place” Bill, not a “Total Place” Bill—and the connections between these two agendas is almost invisible. Thirdly, there is little consideration of the role of community assets in the economic development/city competitiveness agenda, although this is meant to have a high priority in Treasury thinking about the role of the public sector. These three issues are considered later in this section.

The populist potential of the “right to bid” agenda is clear. Conservative shadow ministers for some years have campaigned for residents to have the right to take over post offices, libraries, swimming pools or pubs threatened with closure. There is no doubt about the public appeal of this argument, especially in a context where more than 5,000 post offices, 3,500 pubs and 200 public libraries have closed in the last decade or so. While some of these assets are publicly owned, some will be privately owned, which hints at the potentially radical nature of these provisions.

This appeal is all the stronger when it is suggested, as in a *Daily Mail* article in 2009 at the time of the launch of this Conservative policy, that the “community right to buy” would also give parents’ associations, church groups or other non-profit voluntary groups “the power to bid to take over playgrounds, parks, sports fields and even schools if they believe local authorities that run them are performing badly” and that such groups will have “first refusal on buying public assets that are being closed down and the right to a fair price if they do” (www.dailymail.co.uk/news/article-1229428/Tories-offer-residents-community-right-buy.html#ixzz1BPtO1cyh). However, it has not been easy to give effect to such promises and the Act falls short in this respect. It may therefore disappoint and even antagonise community groups which it had hoped to get on-side.

Moreover, there are questions about how effective such a policy will be. One review of the Scottish experience, where similar legislation was introduced in 2004, concludes: “Complex, cumbersome, frustrating, painful—these were just some of the words used to describe the process of turning the Scottish legislation into the acquisition of real assets for communities” (Dobson, 2010: 4). Dobson cites figures that in the six years after enactment, 148 approved community bodies submitted 124 applications to buy land or other assets when they came on the market and concludes that this power is not a magic bullet—while there have been benefits in Scotland since it was introduced, they have been relatively small scale. The lesson would appear to be that community buy-outs “require adequate, sustained and multi-faceted technical aid and financial investment” which, at a time of cuts, they will struggle to get (Aiken *et al*, 2011; 81).

Of course, there is another agenda at work here—the Government’s drive to cut public spending and debt. Community Matters estimates there are currently 5,000 community assets at risk of disposal, simply as a result of Treasury capital asset reduction targets, not through a desire to transfer assets to community use (NAVCA, no date). Moreover, the Asset Transfer Unit has assisted the transfer of only 200 assets to the community over its four years of existence. As NAVCA suggests, this transfer rate implies that most of the 5,000 will not find a community use. In fact, the short- to medium-term prospects for community ownership and management of assets in the UK currently look decidedly mixed (Thorlby, 2011: 4). Whilst the supply of community assets is currently growing, with public sector organisations currently more willing than ever to consider disposals, public sector support to enable acquisition and ongoing operation of these assets is diminishing. Difficult trading conditions in the wider economy are also undermining income streams from enterprise-based activities. The gap between supply and support appears to be widening. This is another reason for community groups—and local authorities—to be cautious about the practical significance of this new power.

The net effect of this provision of the Act may well end up costing local authorities both time and money. They will need to set up, publish and maintain a list of nominated assets and a list of unsuccessfully-nominated assets and then handle requests to add or remove assets from these lists. Subsequently, they will need to act as an intermediary between a landowner and any community group interested in bidding for the asset. They will have to publicise notices of disposal and enforce the provisions of the Act. Finally, they will need to compensate landowners, where this process can be shown to have resulted in a loss of value to the owner (Auton and Sweeney, 2011).

In terms of the detail of the Act, it is fascinating to see that a “Localism” Act is so rich in new powers for the Secretary of State. As the LGA (2011) has pointed out, this section of the Act includes ten powers for the Secretary of State to make regulations, including on how long assets stay on the list, how owners of assets should be notified, and on what constitutes “land of community value”. The LGA has argued that these decisions should, in the spirit of localism, be made at local level, not by the Secretary of State. However, there is, once again, another agenda at work here. This section of the Bill was subject to much more debate and amendment during its passage through Parliament than the “Community Right to Challenge”. Issues which were given special attention included clarity over compensation for land owners, issues of land that spans two local authority areas, and ways to limit the burden on local authorities and protect land owners’ rights. This clearly suggests that, where property rights are being qualified, lobbying and special interest pleading is particularly vigorous—and local and community interests are in danger of taking a back seat.

Ownership v management of public assets

There is now little dissent from the notion that public assets will often be more cost-effectively managed when management is vested in the community in which they are located. However, there is much more debate about whether ownership should also be vested in the voluntary and community organisations which do the management. On the one hand is a set of arguments that asset ownership increases both the power and stability of a third sector organisation, and is likely to increase the incentives to use the assets well. Moreover, it symbolically gives communities a sense of ownership in their place (although this would presumably be undermined if the asset were not kept in good condition). On the other side, there is a contrary argument that there is a danger that community organisations may, in practice, be no more open and inclusive in giving access to the assets they take over, using them simply to meet their own (relatively narrow) purposes.

Even more worrying, as in the case of the Community Right to Challenge, there are implications from the “life cycle” phenomenon which tends to characterise the vitality of third sector organisations and also the condition and functionality of assets. We can expect that even highly enthusiastic and capable community groups, which make excellent and cost-effective use of assets for years after taking over their management, may lose energy, become exclusive in their attitude to community use or may themselves find that the assets in question become of limited functional value to them. (Or, of course, they may simply run out of funds to maintain those assets properly). Consequently, there is a strong argument for ownership NOT to be vested in a specific third sector organisation. In this spirit, NAVCA (no date) has interestingly proposed an additional “right to try”—allowing community groups an opportunity to take over and run facilities for a trial period—in order to identify and manage risks and provide additional time to raise funds for outright purchase.

Given that public sector organisations have also had an unimpressive record in making best use of public assets, whether in terms of sharing them with all potential users or in maintaining them to a functional standard, a more radical approach is needed. This would combine pressure for more intense use of assets with a more coherent pursuit of the overall public interest, rather than the interest of one specific asset-owning organisation, whether in public or third sector.

“Small Place” v “Total Place”

“Total Place” as a concept may have disappeared, to be replaced by the vague and uninspiring concept of “community place-based budgeting”, but the notion of integrating all public interventions in one place is still alive and, according to the Government, well. However, one would not get this impression from the Localism Act. In particular, the proposals for the Community Right to Bid are likely to lead to much greater fragmentation of public assets and make it significantly harder to formulate and implement a long-term coherent strategy for an area.

A more appropriate approach, more consistent with the overall purpose of the Localism Act, would be to vest all public assets within a local authority area (either at upper or lower tier level) in a Local Community Asset Trust, to be managed locally under a Board of Trustees elected by local people. This proposal, which was surfaced in the Birmingham Total Place reports to HM Treasury (Bovaird, 2010), would be likely to result in a much more coherent and intensive use of public assets in each area and would open up assets to all community groups who could make a proper case to have access to them, without running the risk of ossifying the ownership of assets in organisations which later turn out to be inappropriate. This would focus attention quite properly on the extent to which different ways of managing public assets would harness user and community co-production of public outcomes and social outcomes, rather than on the inputs to the process, namely the assets.

Moreover, it is important to ask: “The Community Right to Bid for whom?” Where assets are owned by a local authority that is strapped for cash and not maintaining its assets properly, a registered social landlord in the area might well encourage tenants to exercise the “Community Right to Bid”. It could then itself turn out the major beneficiary from the deal, if it becomes, in practice, the manager of the asset and can reflect the improved state of the asset in its housing rents. This could lead to the capture of public value by special interests (including private interests) on a grand scale—and do nothing to increase user and community co-production of public services and social outcomes.

Moreover, as with the Community Right to Challenge, there has been a failure of nerve on the Government's part. During the debate on the Second Reading of the Bill in Parliament, Conservative MP for Dover, Charlie Elphicke, challenged the Government to extend the Community Right to Bid even further, so that it covered not only local authority assets but also central Government assets in their area. He gave the example of the port of Dover and suggested that people in other constituencies might want to buy their forests and other such community assets. (NAVCA (no date) proposed including all PPP/PFI assets, too). Having ignored this possibility in drafting the Bill, the Government backtracked and promised to consider this suggestion—but, predictably, nothing came of this. Again, the alternative does not appear to have been considered of a national Community Trust for nationally important assets, supervised by elected Trustees, in which all public sector assets could be vested, and then leased out to Government agencies at an economic rent.

Economic development and city competitiveness roles of public assets

Given the emphasis by this Government on economic development, as instanced by their scramble to get Local Enterprise Partnerships up and running, it is surprising that the implications for city competitiveness arising from the Community Right to Bid has not been considered.

The Government claims that it has given top priority to the central task of deficit reduction. However, debt alone is not a significant economic indicator—it has to be seen in the context of the assets which can be offset against that debt. In the UK, public sector assets, under resource accounting protocols, offset well over half of the public debt, and most of those assets are in local Government and local public agencies, located in the major UK cities. And, of course, targeted investment in those assets during the next five years is likely to speed up the growth of the UK private sector, while under-investment in those assets may damage long-term UK growth prospects. Putting in place a framework where future asset investment by the public sector is less likely to occur, because those assets can subsequently be taken over by community groups for purposes over which the public sector will ultimately have little control, seems high risk and a prime example of unthinking short-termism, likely to undermine the Government's overall strategy.

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Written evidence from Association for Public Service Excellence

I respond on behalf of APSE (Association for Public Service Excellence) which is a not for profit UK wide organisation owned by our member local authorities. APSE's aims and values are to support and promote the delivery of excellence in frontline local government services. APSE works with over 300 local authorities, including police and fire authorities, throughout the UK specialising in frontline service delivery issues.

In responding to this consultation APSE has already issued a number of policy briefings on the new community right to challenge, including the implications of the route by which "two or more employees" may bid to provide a local authority service. APSE has also extensively consulted with its local authority membership about the role of third sector providers in local government service delivery, including a research survey and interviews conducted in 2010 resulting in an e-report "One Size Does Not Fit All" which explored the experiences of frontline service providers in working with the third sector and a further major piece of research, "Proof of Delivery? A review of the role of cooperatives and mutual in local public service provision". This latest research was conducted by APSE in association with De Montfort University as part of a joint Knowledge Transfer Programme.

This response therefore summarises APSE's views drawing on the opinions of its membership and the evidence based findings of recent APSE research. We have also referred to other APSE research and local authority data where appropriate.⁷

For ease of reference this response follows the headline questions raised by the Committee Inquiry and the APSE response is placed immediately below those questions. I would confirm that APSE is also willing to provide oral evidence to the committee should that be requested.

APSE RESPONSE TO KEY QUESTIONS AND SUPPLEMENTARY COMMENTARY

1. *What is the difference between a co-operative council where services are supplied via not-for-profit businesses and other local authorities?*

The committee has asked what differences there are in council services being supplied by for profit businesses and those supplied by cooperatives, mutuals and other forms of social enterprise.

APSE believes that it is important to clarify that there are numerous forms of cooperative, mutual or social enterprise models and the legal forms vary. Cooperatives and mutuals can take numerous forms including:

- Unincorporated association;
- Incorporated association;
- Company limited by shares or company limited by guarantee;
- A community interest company; and
- An industrial and provident society.

It is not therefore exclusively the case that cooperatives, mutuals and social enterprise models are "not for profit". Indeed in many cases profits can be an aim of that organisational form, supported by the legal structure, and such profits could be redistributed as share dividends to its members or reinvested to create access to capital. It is also fair to reflect that whilst legally cooperatives and mutual organisations can be "profit making" they are generally not set-up as "profit maximisers".

The question does not extend to ask what is the difference between directly delivered services and those provided by cooperative forms and those of "for-profit" companies. In explaining APSE's response to this question it is perhaps important to further clarify the distinctions between the three broad options for delivery rather than limiting consideration to a somewhat misleading distinction between just two options.

For the purposes of this response APSE is using the term "third sector" to encompass cooperative, mutual, social enterprise and charitable organisations. It is accepted that when we explore "third sector" delivery models these are often attributed to more altruistic aims; however this is not distinct from that of the directly provided public services. In-house public service delivery is governed of itself by guiding principles and are generally delivered:

- *Free at the point of need:* For example in the case of statutory local government services (bin collections are free) and with non-statutory services generally delivered, if charged for at all on the basis of an affordability criteria (differential leisure pricing for say an older peoples' swimming session).
- *Through means of equitable distribution:* Services delivered upon the basis of need not ability to pay: As with NHS services priorities are based on clinical need or in local government housing is delivered based on a priority points system.

⁷ <http://www.apse.org.uk>

- *Rationed to accommodate service budgets:* The levels of service available are accommodated by budget setting processes, in the case of local government through elected members who may determine, for example, the frequency of street-sweeping in a locality or in health, for example, the interventions necessary to “ration” the distribution of certain medications, taking into account costs against clinical efficacy.
- *Accountable nationally and locally for the quality and cost of the services delivered through democratic routes:* In the case of “national public services” such as the NHS there are acknowledged difficulties in localised democratic accountability but in local government services there are direct routes through local elections. The 2009 local elections for example were dominated in many areas by so called “bin wars” with huge political debate at a local level about the frequency of refuse collection and recycling services.

In the case of for profit delivery of public services it is clear that companies who engage in the public sector marketplace intend to make a profit from those services. Indeed they are obligated to act in the best interests of their shareholders in order to maximise profit. The company forms of such organisations is most usually:

- A company operating within a for-profit structure and legal framework;
- Ability to raise investment capital and pay profits by way of dividend to its shareholders; and
- Operating on cross-boundary arrangements, maximising the efficacy of its operations by winning contracts across a multiplicity of public sector providers.

The contrast between the differing models is therefore stark in that whilst directly provided public services are accountable to the whole of the general public through the ballot box the “third sector” forms of delivery, through the various legal forms, are accountable to those exclusive groups of members or co-operators—in a similar way in which for profit companies are answerable to their limited shareholders, rather than to the wider public. Moreover, in the same way that private companies are accountable to their client, through contract performance measurements, the necessity of such arrangements are not exempted simply because a third sector provider is operating on a “not for profit” basis since the local authority, or other public sector client, is still, by necessity, ultimately accountable for the contract or service performance when using public money in its’ provision.

The question also uses the term “co-operative council” in quite a definitive sense, which we presume by the question, would mean a council where its services are outsourced albeit to third sector providers. APSE would argue that this is not exclusively the understanding, or indeed intention, of so called “co-operative councils” and is one that may more accurately describe a developing concept and culture of cooperation. However whilst APSE would support a move towards a greater “co-operative” culture in public services this ought not to be about establishing contractual relationships with co-operatives and mutuals but about embedding and enhancing culture change within councils and other public services.

In many ways the traditions of municipality, going back to the early days of local authorities developing for example, social housing to address poverty and deprivation, and health issues, through local waterworks and public health provision, have encompassed localised and community based interventions in order to promote better lives and better communities. It would be wrong to tie such mammoth examples of both historic and on-going municipal entrepreneurship into a narrow definition that potentially seeks to exclude direct public service delivery. Public services were, and still are, a natural progression from the social developments which stemmed from early municipality, co-operatives and Victorian philanthropy. Whilst public services ought not to “squeeze out” the third sector UK public services remain amongst the best in the world and indeed enhance and develop the social outcomes that were initially envisaged through early municipal and co-operative developments.

2. What arrangements need to be put in place to deliver services by not-for-profit businesses such as employee-owned mutuals? More specifically, what are the barriers to establishing not-for-profit businesses to supply services; what role does the local authority have in promoting and incubating a not-for-profit business; and where does accountability lie?

Myths about public service delivery are often promulgated, in many cases by a hostile press, which tend to under-research issues prior to publication, that suggest or presume that public services operate on an ad-hoc and unplanned for basis. In the case of all public services this is simply not the case and in the context of local government APSE’s experience is one of high-level managerial control and decision making on future service plans. This is not optional, it is an absolute day to day necessity to both ensure services to vulnerable people, and the wider community, and to deliver against restricted budgets. Decision making and service planning in this context must go beyond considering benefits to one element of public service delivery or the desires of certain providers to deliver “parts of” a service. Councils are duty bound to consider the strategic role of public services delivered at a local level; they must ensure that all services are holistically integrated, wherever possible, to deliver the best outcomes. These aims are not always achieved but equally they cannot be abandoned to accommodate sector specific interests alone. Strategic alliances can of course be formed but only where such alliances meet the needs and interests of the local communities in the longer term and keep public service budgets in kilter.

Local government is often at the forefront of delivering on national policy objectives whether that is tackling climate change through recycling measures and waste to energy schemes, or through services responding to

cross-cutting policy initiatives, such as child obesity through school meals, or physical activity through sports and leisure services and parks and open spaces. The cross-cutting planning of services, and expensive decisions such as investing in new fleet and technology, or in a new leisure centre, must be accountable and fit with overall service planning and budget availability, not to mention prudential planning and borrowing requirements. This helps local authorities deliver on national as well as local policy priorities, and indeed often in line with global priorities, such as action on climate change.

Therefore in the context of service planning the “community right to challenge” (which includes the right for two or more employees to bid to run a service as a worker-led co-operative) could in-fact be extremely problematic and frustrate investment plans and service development. Services operating to economies of scale could not readily be expected to snap-off chunks of plans without an impact on other areas of delivery, simply to meet a desire to enable more involvement of the third sector in public services. In the same way that there is a “rip effect” when services are outsourced to the private sector there is arguably a similar impact when services are outsourced to third sector providers. Local authorities must retain the ability to say “no” when proposals that are unsustainable are raised under the auspices of third sector involvement in service delivery. It ought not to be a case of “tail wagging the dog” when it comes down to service planning and budgets. Consequently when asking “what are the barriers to establishing not-for-profit businesses to supply services” we must first explore the broader issues that arise at service planning stage rather than seeking an answer to a question that presumes services can be outsourced, even if to not-for-profit organisations, without a broader impact.

The committee has also asked “what are the barriers to establishing not-for-profit businesses to supply services” and “what is the role of the local authority in promoting and incubating a not-for-profit business”. On the first point rather than barriers to establishing not for profit businesses it is perhaps more appropriate to explore the barriers to engaging existing not-for-profit businesses in local supply chains. APSE researched this matter in “More bang for the buck: Achieving community benefits through procurement” which was produced in association with the CLES (Centre for Local Economic Strategies). Barriers to not-for-profit or small businesses were cited, though not exclusively, as:

- Complex tendering requirements geared towards larger rather than smaller business units;
- Cultural barriers in not accommodating SME/third sector providers in tendering and procurement processes; and
- A tendency towards larger block contracts rather than smaller contract lots.

In terms of the development of new not-for-profit suppliers, whilst clearly a local authority is able to take a facilitative approach, one is minded to consider carefully the implications of state aid issues and in any event the overarching requirement, whether through European or domestic requirements for transparency and fairness in tendering and procurement; there is a need to remain unbiased and in any event a statutory duty to consider “Best Value”.

Moreover APSE is concerned that the mechanistic approaches such as the “community right to challenge” could produce a perverse impact on local charities at the expense of contracts being awarded to newly formed “staff mutuals” or larger non-local or regionally based charities or third sector operators in aggressive “bidding wars”. Whilst the over-riding intention of the drive towards localism purports to support local user/provider engagement in public services, and a stronger role in developing this for the public sector, this is uncharted territory and there is a complex set of factors that requires more detailed and evidence based consideration, rather than policy being determined by an untested set of assumptions.

Inevitably barriers to the involvement of co-operatives and mutuals in public services will centre on procurement issues. Whilst moves are underway to amend the European public procurement rules, and the new Social Value Act 2012 attempts to embed consideration of social value in public procurement it is, and is likely to remain the case, that in order to safeguard public money local councils and other public services will be still be required to go through a procurement exercise. Risk of challenge is highlighted by recent threats of a judicial review in respect of a well-publicised NHS case, which sought to award a contract “as of right” to a staff mutual. Similarly the high profile attempts to establish a staff mutual from the remnants of the Audit Commission subsequently found the staff mutual was unsuccessful in bidding for contracts—as a consequence this embryonic staff mutual was found to be unsustainable as an enterprise with audit work being picked up by for-profit companies.

3. What are the advantages of and drawbacks to providing services via not-for-profit businesses?

There is little evidence about service delivery improvement (when services are delivered by not-for-profit businesses) so current public policy assumptions are being made on the basis of scant detailed policy evidence. This is a dangerous position for the public sector and for public service users. APSE would draw your attention to two pieces of APSE research. The first research paper “One size does not fit all” explored the perceptions and experiences of public sector managers in dealings with third sector providers. Key findings were; a lack of consistency in dealing with longer term contractual commitments and, in many cases, experience of third sector providers being wholly reliant upon public sector funding or simply “walking away” from contracts that became too difficult or where interest in providing a service had waned.

APSE carried out a further study in 2011 with De Montfort University, which explored over 1600 case studies, which sought to establish an evidence base of the success or otherwise of cooperatives and mutuals in public sector delivery. In spite of both a UK wide and international trawl for evidence many examples cited as “good practice” were not in fact meeting the test of cooperatives or mutuals and in many cases (even those cited by Ministers) were not in fact examples of public sector delivery models but of consumer or retail cooperatives. Moreover the evidence exposed:

- A pattern of financial instability and cuts to terms and conditions of the workforce in order to meet the financial deficits;
- Difficulties in raising capital were evidenced as was the inability to break away from financial reliance upon the public sector;
- In those case studies where the model was found to be successful (just 12 of all case studies explored) a critical success factor was the continuation of a nurturing and supportive public sector; this was an essential factor to success; and
- The availability of longer term contracts (at least 10 years) to support financial stability.

However, in the current climate the idea that longer term financial and non-financial support from the public sector will automatically be made available in an austere environment is questionably, more especially if co-operatives or mutuals are considered to be a route to saving money.

Whilst highlighting the potential drawbacks it is important to highlight a more positive experience of third sector involvement in public service delivery. For example, in the field of social care many niche providers are able to inject much needed bespoke support for specific needs, through specialist skills and knowledge, in areas such as parks and allotments the role of the local authority as a guardian of the public realm reveals detailed collaborative working with friends of parks groups, allotment societies and local litter campaigns.

The distinction appears to APSE to be that a more positive experience, and achievement of a social return on investment, can be extracted through the third and public sector working collaboratively rather than the third sector “replacing” the public sector.

4. Where services are delivered by not-for-profit businesses what difference will the local resident and local taxpayer see?

This question is posed on the assumption that “not for profit businesses” are unique and not the same as those services run directly by the council; however council run services are themselves not for profit. More accurately therefore we assume the committee is seeking views on differences in experience of service users where the service is run by a not-for-profit but nevertheless external organisation, a service which may be provided by a for-profit company, again as an external organisation and a council service which is directly provided. There are potentially more similarities than differences in the first two modes of delivery.

If a council chooses to appoint a third sector entity to deliver its service it will nevertheless need to put in place certain safeguards such as:

- A contract or specification in exchange for contract payments or a grant arrangement;
- The ability to monitor outcomes and achievements and record any money spent;
- A process for intervention should the service fail; and
- An analysis of risk and other matters such as insurance liabilities, competency, CRB checks and so forth.

These are similar measures that would apply if a service is outsourced to a for-profit delivery organisation. When using public money a local authority could not lessen its due processes to safeguard both citizens and service users as well the public purse. Directly provided services, whilst not through a contract or separate arrangement (as they do not operate as a separate legal personality to that of the council) are equally subject to internal monitoring and scrutiny as well as budgetary controls and other quality measures; however enforcement of non-performance issues is not frustrated by recourse to third parties and direct intervention is therefore possible.

In terms of user satisfaction and user experience surveys and analysis would provide a rich source of evidence to support effective performance indicators of differences experienced by residents, and taxpayers, in a scenario where a service provider has changed; however in the case of “not-for profit” service providers evidence is extremely limited. This is in part due to a lack of good data collection methods and the ad-hoc nature of not-for-profit provision in public services which does not easily lend itself to meaningful comparisons.

APSE research “Proof of Delivery: A review of the role of coops and mutual in public service provision” found that in spite of cooperatives and mutuals being cited as a means to deliver more efficient and bespoke public services, closer to the communities that they serve, there is no evidence base for these claims. As detailed above, of the 1600 case studies explored by APSE and De Montfort University, just 12 case studies met with the criteria and even amongst this sparse group quantifiable data was scant. Not all data, where quantified, supported assumptions of improved performance, whether that be in terms of finance, quality or

user experience. There is therefore an acknowledged paucity of evidence to support very broad claims that suggest cooperative and mutual models will enhance or improve user experience.

APSE has also carried out a further piece of research “Insourcing: A guide to bringing local authority services back in-house” which explored the volume of insourcing services to local councils that had been outsourced, to private sector providers. The research explored reasons for services being brought back in-house or “insourced”. The most commonly cited reason for insourcing was poor contract performance and subsequent dissatisfaction amongst residents. The research found that case studies such as the London Borough of Southwark found resident satisfaction levels within street-scene services rose from a poorly performing 30% to over 70% when the service was returned to in-house provision. This may be considered to be a typical example, within the research study, of residents and taxpayers being dissatisfied with service delivery by for-profit providers.

APSE also holds the UK’s largest bank of benchmarking data for local authority frontline services. In services such as refuse collection, street cleansing, sports and leisure services, parks and grounds maintenance the performance data provides evidence of on-going improvements in customer satisfaction, cost and quality. Quality scores are applied for example to an indicative suite of indicators—such as response times on street lighting or fly-tipping removals, alongside indicators such as staff training and development and absence levels and other productivity indicators. There is no available comparable data for those services which are outsourced to third parties, whether those providers are not-for-profit or for-profit businesses.

Therefore to return to the question of will residents have a different experience (from a third sector provider) it is difficult and indeed wrong to make assumptions that cannot be supported by an evidence base. Anecdotal evidence from APSE members, through roundtable events and strategic forums, suggests that where there are multiple service providers, from whatever sector, frustration can result from service fragmentation and confusion about the role of the local authority. Elected members have also reported occasionally that they have felt fettered from intervening on behalf of residents in issues of service delivery complaints where their role has been one of referring to a contract provider rather than being able to “pick up the phone and get one of my officers to put it right for my constituent”.

SUPPLEMENTARY COMMENTARY

The current policy debate implies that the public sector is a monolithic supplier of public services and that this creates a “top-down, get what you’re given” approach to public service delivery; it therefore follows in this debate that a more choice based, and bespoke, public service offering could be nurtured by involving the third sector in public services.

In reality the vast majority of local authorities already have active policies to engage citizens and communities. Many have adopted sustainable procurement policies that encourage and nurture local suppliers and SMEs. In-house services, on a daily basis, take on young apprentices and encourage sustainable local employment solutions and re-skilling their workforce. APSE research on the “The Role of the Local Authority in the Transition to a Green Economy” provides numerous case studies of local councils working with local SMEs and the third sector to develop renewable energy schemes, sustainable transport schemes and eco-housing developments. Therefore APSE would urge the committee to perhaps recalibrate the debate to a more measured appraisal of what in fact is already happening at a local authority level in respect of this agenda.

The third sector is of itself a powerful lobby group. APSE does not criticise the third sector for seeking to expand its role in service delivery. Equally we would urge the committee to recognise that perceptions of public service provision are often far removed from both the practical realities of delivery and the fact that public services are by default rationed. The often seductive language of “cooperatives and mutuals” as a morally superior form of delivery of public services can equally disguise the differing legal nature of such models; such language wrongly assumes them to be a more democratic form of public service delivery. APSE would urge the committee to ensure it takes cognisance of the differences between “democratic organisations”, which are embedded in cooperative values, and “accountable democracy” delivered through direct public services.

May 2012

Written evidence from Mutuals Taskforce

FOREWORD

The Mutuals Taskforce was appointed by the Minister for the Cabinet Office, with the backing of the Prime Minister and Deputy Prime Minister, in February 2011. The key role of the Taskforce is to engage with, challenge and promote the work of Government to support the creation and development of Public Service Mutuals. To do this, the Taskforce’s membership includes people with experience and expertise in the mutual field, such as mutual practitioners Donna Fallows of Evolve YP, Stephen Kelly from Cabinet Office, Patrick Lewis of the John Lewis Partnership and Jo Pritchard of Central Surrey Health; members of organisations representing the key forms that spin outs from the public sector take, including Patrick Burns from the Employee Ownership Association, Peter Holbrook from Social Enterprise UK, Ed Mayo from Cooperatives

UK and Rachel Wolf of the New Schools Network; and last, and in many ways least, academics Professor Peter Marsh from the University of Sheffield (Vice Chair) and me from the London School of Economics (Chair).

The public service mutuals agenda is broad, but the initial focus of the Taskforce is on employee-led spin outs from the public sector. The forerunners of this work have been the Right to Request and subsequently the Right to Provide developed and implemented by the Department of Health, as well as the Social Work Practice pilots set up by the Department of Education. I was deeply involved with the latter, having chaired the Departmental Working Group that set them up; inspired by the experience of employee-owned John Lewis in this country and of the co-operative experiments abroad, I have long been interested in the idea of private sector mutuals, but it was the experience of working with the fledgling social work practices that convinced me that this was an idea that had potential for transforming the wider public sector as well. So I was very pleased when Cabinet Office Minister Francis Maude, himself deeply committed to the idea, invited me to chair the Taskforce intended to promote the Government's policy in this area.

However, to those unfamiliar with the mutuals idea, the Government's and Taskforce members' enthusiasm for the agenda is worth further explication. This paper is directed to them, as well as to those who simply have a general interest in mutual forms of organisation. It draws together the academic evidence that exists on the performance of employee-led organisations in both public and private sectors. It cannot claim to be a comprehensive review of that evidence. However, we hope the paper provides a useful stock-take and goes some way to explaining why the Taskforce believes that public service mutuals with a high degree of employee control have the potential to transform public services—both for those who work in them and for those who use them.

Acknowledgements

This paper was a collective effort. Julian Le Grand did most of the drafting. Helpful comments, references and other contributions came from Ed Mayo, Peter Marsh, Stephen Kelly, Nita Clarke, and other members of the Mutuals Taskforce and Cabinet Office. Useful comments were received from Dennis Simpson.

This paper is not a statement of HM Government policy.

EXECUTIVE SUMMARY

The aim of the Mutuals Taskforce is to engage with, challenge and promote the work of Government to support the creation and development of Public Service Mutuals. To demonstrate the importance of this task, this paper reviews some of the national and international evidence relating to the performance of organisations with a high degree of employee control—in both the public and private sectors.

The strongest evidence suggests that these organisations:

- Have lower absenteeism and staff turnover than non-employee-owned organisations.
- Pay higher wages on average. They also have lower production costs and (generally) higher productivity.
- Deliver greater customer satisfaction.
- Are innovative, profitable and resilient to changes in the economic climate.

The paper concludes that there is a significant body of reliable evidence suggesting that well-designed mutualisation in the public services has the potential for yielding considerable benefits in a wide variety of contexts. Such mutuals could be directly beneficial for their employees, with higher well-being, lower staff turnover and absenteeism than their competitors, and for the users of the service they provide, offering a higher quality service with superior customer satisfaction. The mutuals concerned could also be more innovative, more efficient, more productive and more resilient to turbulence. However, it is also recognised that employee control or ownership is not suitable or desirable in every respect and at all times. Nor are these organisations the answer to everything. Nevertheless, the potential for a transformation of public services through the development of public service mutuals is considerable—and one that the Mutuals Taskforce is determined to realise.

INTRODUCTION

Two years ago a group of social workers in Staffordshire decided to develop an entirely new and innovative way of providing services to looked after children. They sought greater autonomy, so they could be truly responsive to the needs of the young people they served; they looked for renewed professional motivation; and they wanted real ownership over their work, combined with greater responsibility and accountability. Having worked for many years as part of the local authority, they decided to “spin out” and set up a new employee-led mutual—a “social work practice” that they called *Evolve YP*.

Over the past 24 months *Evolve YP* has gone from strength to strength. Currently 15 staff work in the Practice, consisting of five social workers, four personal advisers, two project workers and two office staff. The mutual is a social enterprise operating on a not-for-profit basis under contract to Staffordshire County Council. The organisation supports more than 170 children and young people aged between 12 and 25 years old.

Leaving the local authority to become a mutual has led to significant changes in the way the social workers approach their work, including innovations in the service provided. For example: Decisions being made closer to the young people reduces the time spent chasing authorisation from management. This approach encourages creativity and promotes good practice. Evolve YP is now sharing their experience and expertise by participating in the Mutuels Taskforce.

Public service mutuels such as Evolve YP involve frontline staff taking a real stake in the ownership and governance of the organisations within which they work. These innovative organisations are at the centre of the Government's reforms to public services, with the aim of bringing about a transformation in the lives both of those who use and rely upon public services, and of those who provide and work in them.

As with other public service reforms, implementation will take a number of years. The new mutuels will take time to develop and mature. With the encouragement of the Cabinet Office, 21 "pathfinder" public service mutuels have "spun out" or are in the process of doing so; and the Mutuels Taskforce is working with these to identify the opportunities they are creating, and the challenges they are facing, and will report back on this in due course.

But it is not necessary to wait for the full maturity of the policy before examining the case that mutuels have the potential to transform public services. For there is both theory and evidence, in both private and public sectors, that can illuminate the issue. Drawing this together is the task of this paper.

The term "mutual" itself may not be familiar to all, so the paper begins with a discussion of definitions. It then summarises the theory and some of the current evidence concerning the experience of mutuels. There is a brief conclusion.

DEFINITIONS

The language of mutualism encapsulates a rich tradition of principles and values. At the outset it is important to set out and clarify the way in which these ideas are deployed with reference to public service reform.

A public service mutual is an organisation which has left the public sector "parent body" (also known as "spinning out") but continues to deliver public services. Mutuels are organisations in which employee control plays a significant role in their operation.

There are a wide variety of models and types of "mutuels". Mutuels can vary in terms of:

- Their *legal form*. Mutuels can be registered as any of a wide variety of legal forms, including Community Interest Companies, companies limited by shares or guarantee, and Industrial and Provident Societies.
- Their *business model*. Mutuels may be for profit, not-for-profit or social enterprise businesses. They may begin as fully fledged independent organisations, or start as bodies working towards independence from a parent organisation. In either case, mutuels will always require a business plan and model.
- Their *membership/stakeholders and investors*. Mutuels have stakeholders and/or members instead of, or in addition to, external shareholders or investors. These may be comprised of employees, community groups, service users or some combination of these. Mutuels can be also be formed by any of these groups of stakeholder members coming together with external investors, for example, from trade or financial sectors to form a Joint Venture, and/or with government.

There is room for mutuels of all kinds with this varied picture of organisational forms, business models and membership set-ups. However, the initial (although not exclusive) focus of the Taskforce has been on mutuels with a substantial degree of employee engagement and control, and consequently these are the principal interest of this paper.

THEORY AND EVIDENCE

Employee ownership and employee control are ways of creating greater employee engagement in the provision of public services. Hence the case of employee ownership and control depends in large part on the justifications put forward for employee engagement.

Of these justifications, there are two kinds. One is intrinsic to the employees themselves: that is, greater employee engagement in the delivery of public services is desirable because of the positive impact it has on the employees. The other is that employee engagement is instrumental in improving service delivery: that is, greater employee engagement is an instrument for achieving a better service, with more satisfied users, lower costs and greater productivity in service delivery.

There is a considerable volume of evidence supporting the existence of both kinds of benefit from employee engagement. That evidence is briefly summarised below. It was sourced from a number of syntheses of the available academic and practical research undertaken in the last decade, including Kruse (2002), Burns (2006), Reeves (2007), Macleod & Clarke (2008), Kuler & colleagues (2010), Kruse & colleagues (2010), Lampel & colleagues (2010), and Matrix Evidence (2010).

Organisations that have been this subject of research fall into a number of categories:

- public sector spin-outs in the UK, adopting a range organisational forms; and
- private sector businesses in the US and UK with either:
 - (a) a degree of employee ownership; and/or
 - (b) a high degree of employee engagement in the running of the business.

The evidence reviewed varied significantly in scope, methods and approach. A number of studies set out the theoretical basis for improved organisational performance through employee ownership and engagement; others used a variety of empirical methods to examine the evidence base for mutuals. The review contains examples of both types of evidence.

It is important to note that organisations without employee ownership and governance can still engage staff. The mere fact of employee engagement cannot be automatically taken to justify employee-ownership and control. However, the reverse—that employee-ownership and control leads to employee engagement—is more plausible. Macleod & Clarke (2008) note that employees are quick to spot tokenistic or unsubstantial attempts to “engage” with them, which can often have counter-productive results on employee engagement and organisational performance. The embedded nature of employee ownership within the legal incorporation and governance of the organisation provides one method of demonstrating ongoing commitment to engaging with employees in a clear and transparent manner. If the accountability structures within the organisation give employees an integral role, the demonstration of meaningful engagement becomes all the more simple: the centrality of democratic, employee-led governance within mutuals embeds these values and practices at a deep level within the identity and culture of the organisation. As such, employees may treat the authenticity of engagement with greater regard as a result of these intrinsic commitments.

Intrinsic Benefits

That greater employee engagement yields intrinsic benefits for the employees themselves is supported by organisational and psychological theory. A notable example of this is self-determination theory, developed by psychologists Richard Ryan and Edward Deci (2000). It is a theory both of the factors that motivate individual behaviour and of the satisfaction that people get from that behaviour. With respect to the factors that motivate behaviour, the theory distinguishes between autonomous actions and those that are perceived to be controlled or influenced by factors external to the self. Autonomous actions occur when people do something because they find it interesting, enjoyable or important. Controlled actions occur when individuals are motivated to perform them by some form of external pressure, such as managerial directions or the threat of losing one’s job.

Deci and Ryan (2000) argue that it is autonomous actions or behaviour that delivers the highest degree of satisfaction. Controlled action may be just as highly motivated as autonomous activity, but evidence indicates that the quality of the experience and performance is not as good in general when people are controlled than when they are autonomous. They also discuss the factors that might affect the degree of control and hence the kind of motivation that people might experience. Contextual support to decision-making and situations where motivators provide a convincing rationale for undertaking a certain kind of behaviour can reduce the element of perceived control and enhance feelings of autonomy. Conversely, threat of punishment, deadlines, formal or overbearing means of communication can make individuals feel controlled and less autonomous. In consequence, as noted above, the quality (and indeed quantity) of their relevant actions might diminish.

All this is particularly true of professionals in public services. Most public services are delivered by professionals of one kind or another: doctors, nurses, teachers, social workers, probation officers. Professionals are trained to act independently of authority, to make judgements on their own, and to exercise discretion in decision-making. Indeed, such independence could be viewed as one of the key elements of professionalism. In consequence, they respond badly to pressures that might compromise that independence: to outside direction, to strict oversight and to heavy monitoring. In circumstances where they are subject to such direction or oversight—they tend to feel put upon, resentful, and demoralised. This is detrimental to their personal sense of self and of well-being. If, in contrast, they have their own organisation to run—one which they own and control—then this gives them an uplift in well-being and a positive sense of self-worth.

It is, of course, not always the case that professionals in the public sector feel their professional integrity is compromised. The best government services can provide an environment that respects professional judgment and supports devolved responsibilities in a culture of learning. The argument for mutuals is that this can be more readily achieved in organisations where the ownership and direction of practice is with the professionals themselves.

If this theory is correct then, when employee-owned mutuals are compared with organisations in the same area that are not employee-owned, employee commitment and job satisfaction would be higher in mutuals. In fact, it has been demonstrated that employee engagement is related to emotional experiences and well-being (Kuler & colleagues, 2008, p 18). Also, on the grounds that happier staff stay longer and work harder in their place of employment, that those working in employee-owned organisations have a higher morale than those in managerial hierarchies can be inferred from evidence concerning staff turn-over and absenteeism: specifically, that both should be lower in mutuals than in hierarchies. And indeed that turns out to be the case. Specifically:

- *Absenteeism is lower in mutuals.* Reeves (2007) used CIPD data on absenteeism in the retail sector to benchmark John Lewis's performance in this area: John Lewis's rate was 3.4%, less than half the retail average of 7.8%. The mutual Sandwell Community Caring Trust saw its absenteeism rate fall from 22% when in-house, to less than 1% 10 years after spinning out (ACEVO 2010). Nationwide Building Society's evidence to the Macleod review (Macleod & Clarke 2008) noted that absenteeism in areas with the highest employee engagement was lower than for the business as a whole, to the extent that if employee engagement was raised to the level of the top third, and absenteeism also fell to the equivalent level, this would save the company £0.8 million per year. The Matrix review reported on two studies that investigated absenteeism: the presence of employee share ownership among a panel of French firms reduced absenteeism by 14%, and a case study of a small manufacturing firm in the North Eastern United States found a reduction in voluntary absenteeism, though this was offset by an unexplained increase in involuntary absenteeism (Matrix Evidence 2010).
- *Staff turnover is lower in mutuals.* John Lewis's turnover rate (21% per annum) is less than half that of their competitors, with two competitors at 43% and 38% (Reeves 2007). Nationwide Building Society's evidence to the Macleod review noted that voluntary employee turnover was just 10% in areas of high employee engagement, compared to 17% in areas of low engagement. Standard Chartered's submission to the same review noted that branches with high employee engagement operated with 46% lower voluntary turnover (Macleod & Clarke 2008). The Matrix review (2010) reported on two empirical studies that correlated a higher employee perception of influence over a company with a lower turnover of staff.

There is also evidence of the prevalence of intrinsic benefits for employees where recruitment, and terms and conditions are concerned. Specifically:

- *Retention and recruitment of high-quality staff appears to be easier in mutuals.* In a survey of senior managers within employee-owned businesses, more than half suggested that retention and recruitment of high-quality staff is easier because of their ownership structure (Burns 2006). A survey conducted at a large employee-owned engineering company stated that the organisation's model of incorporation was the fifth most significant factor (from thirty one) in determining their choice of firm (Reeves 2007). And, in a related finding, Kuler & colleagues cite research that show engaged employees are likely to have a greater attachment to their organisation (2008, p 18).
- *Mutuals paid higher wages on average than non-employee-owned organisations.* Employees tend to be better off from being an owner, both in terms of financial income and other benefits such as increased job satisfaction (Lampel & colleagues 2010, Matrix Evidence 2010). A review of the US evidence found that on average, employee-owners generally do not sacrifice pay or benefits in exchange for employee-ownership and in fact are more likely than other employees to have diversified retirement plans (Kruse 2002).

When employees are at work in mutuals, the effectiveness with which they undertake their duties is a good illustration of the presence of intrinsic benefits. Supportive and co-operative working environments provide a strong basis for employees to perform well, and to supervise the performance of their peers. Specifically:

- *Mutuals have better staff performance.* The Matrix review found that nine of fifteen studies found higher levels of employee performance in employee-led businesses (Matrix Evidence 2010).

Finally in this section, it is worth noting that the intrinsic motivation of members to participate in co-operative enterprises may not simply be driven by personal benefits but can reflect, and over time increasingly reflects, an affiliation to what might be termed "collective incentives" (Birchall & Simmons 2004).

Instrumental benefits

The instrumental benefits follow from the intrinsic benefits. The higher morale and greater commitment of employees leads to improvements in the quality of the service and the efficiency with which it is delivered. Indeed there is something of a virtuous circle here. The Macleod review (Macleod & Clarke 2008) provided an overview of employee engagement in the workplace to the Department of Business, Innovation and Skills. The Review put forward similar arguments to the above, identifying a virtuous circle of engagement for employees, leading to both intrinsic and instrumental benefits. They identified three factors:

- *attitude*, where employees feel "pride and loyalty" in their workplace;
- *behaviour*, where employees act as informal advocates of their organisation, or "go the extra mile" to deliver high-quality work; and
- *outcomes*, where the effects of these factors are seen in enhanced organisational performance.

Each of these factors serves to reinforce the value of employee engagement to individuals; in turn this leads to an enhancement of the value of the service being delivered; which in turn increases the value of the employee engagement. Intrinsic benefits leads to instrumental benefits, leads to further intrinsic benefits.

One component of quality within public service delivery is the experience felt by service users, and the extent to which positive relationships are established and maintained between service users and staff. Customer satisfaction is thus an important indicator of instrumental benefit. Another concerns innovation. Employee

leadership can improve organisations' ability to innovate, firstly, by removing barriers to innovation, such as bureaucracy and inflexible processes and, secondly, by stimulating incentives to innovate in order to maintain existing revenue streams and develop new ones.

The cost and productivity of mutuals is also an issue for those that operate within public services, as is their capacity to generate employment and their overall profitability. In addition, given the significant turbulence within the global economy in recent years questions are raised as to whether the distinct methods of employee engagement adopted by mutuals can offer resilience in such conditions.

There is evidence concerning all these matters, again favourable to mutuals. Specifically:

- *Mutuals deliver greater customer satisfaction.* John Lewis has come top of Verdict's Retail Customer Satisfaction Index for the past three years (Verdict 2008, 2009, 2010). The Institute for Employment Studies, using extensive UK data to track employee and customer engagement over two years, found that employee commitment directly supported higher levels of customer satisfaction, such that when combined with other benefits such as higher sales, a 1% increase in employee engagement can boost sales by 9% (Barber, Hayday and Bevan 1999). Harter, Coffman and Fleming (2005) cited positive relations between employees and customers in ten companies as a significant driver of financial performance. Business units scoring above average on both customer and employee engagement outperformed business units with below average engagement by over 300% on Like For Like growth.

A survey of senior managers within employee-owned businesses found that more than two-thirds (71%) perceive customers as regarding their firms' mode of incorporation as a driver of added value (Burns 2006). Nationwide Building Society's response to the Macleod Review noted that customer experience was clearly correlated to employee engagement, indicating the enhanced value to customers of an engaged workforce (Macleod & Clarke 2008). Specifically within public services, a report by Towers Perrin noted that 79% of engaged employees felt that they could make an impact on the quality of services delivered, compared to just 29% of disengaged staff (Towers Perrin 2007).

- *Mutuals innovate.* Matrix Evidence's review (2010) cited an empirical study which found production worker influence on innovation in work processes, new products, and marketing to have a "substantial and significant" positive impact on sales-per-employee. Reeves (2007) suggests that the absence of investors seeking to extract profit in the short-term leads to a longer-term outlook, with resultant investment in innovation. As an example of this, John Lewis was the first department store to open an online sales outlet, which now contributes significant revenue to the business. Patrick Burns's survey (2006) of senior managers within employee-owned businesses saw 64% of their considering innovation to happen more easily in employee-led firms. Profit per employee has been correlated with giving employees greater autonomy in the workplace and actively seeking innovative ideas from employees (Lampel & colleagues 2010).

It should be noted that innovation in the public sector amongst professionals, such as teachers, social workers and health professionals, is also achieved through improved competence in a learning environment with a strong regard for evidence supported by challenging critique and supervision. The best public sector organisations have good track records for continuous service improvement. However, the evidence suggests that innovation through sustainable learning capacity is better achieved in conditions where employees can more readily shape and own their own professional futures—where new ways of working are encouraged by adopting inward and outward looking perspectives and where enabling and empowering participation is valued.

- *Mutuals have lower production costs and (generally) higher productivity.* The use of peer-to-peer supervision and performance-management is both cheaper and more effective than hierarchical performance-reporting and line-management; and that this method of monitoring performance is higher in employee-owned organisations (Kirchler, Fehr & Evans 1996, Halpern 2004). Employees with a financial interest in the successful operation of their employer's organisation, coupled with governance and accountability mechanisms to support effective change where appropriate, use these mechanisms to reduce waste and enhance the efficiency of processes (Freeman, Kruse & Blasi 2004).

The operations, procurement, ICT and HR systems that organisations use are an overhead, for which cost should be minimised. Evidence suggests that employee leadership within organisations can drive out significant costs in this area. Sandwell Community Care Trust halved their spend on overheads (from 38% to 18%) over the ten years following their spin-out from the Local Authority (ACEVO 2010). The Co-operative Group's evidence to the Macleod review included an analysis of food wastage in its convenience stores, which found that large increases in employee engagement reduced food wastage significantly (by £400,000 *per annum*), with moderate increases having a smaller impact (by £200,000 *per annum*) (Macleod & Clarke 2008).

However, the Matrix review found mixed evidence on general productivity, with nine of the articles reviewed finding mutuals with higher levels of productivity than non-mutuals, but five not. Productivity was likely to be higher the greater the extent of employee-ownership and the smaller the company (Matrix Evidence 2010). A review of the US evidence found that, on average, employee ownership was linked to 4–5% higher productivity (Kruse 2002).

- *Mutuals create jobs.* A possible problem with employee-led mutuals concerns their attitude towards employment. In the middle of the last century, several leading economists modelled mutuals as what they termed a labour-managed firm: one where the principal objective of the firm concerned is to maximise the income per worker (Ward 1958, Vanek 1970). These models can lead to the prediction that, as prices rise, such firms would reduce employment, since that would increase the profit share of the remaining workers. However, a comprehensive review of the empirical economics literature in the early 1990s found no such effect (Bonin, Jones & Putterman 1993). Nor are these predictions supported by more recent evidence from the UK. Rather they suggest that mutuals create jobs faster than non-mutuals, even during recession. So Lampel & colleagues (2010) found that employee-owned enterprises generated employment growth from 2005 to 2008 at 7.5% pa nearly twice the rate of non-employee-owned enterprises at 3.9%. In the recession the rate increased even faster; 12.9% compared with 2.7%.
- *Mutuals are profitable and resilient.* The Employee Ownership Association's Employee Ownership Index (EOI) tracks the share price of FTSE-listed companies with more than 10% ownership by employees. From 1992–2010 the Index demonstrated employee-owned firms consistently outperforming against the FTSE All-Share, showing the strong performance and resilience of these organisations. In summary: "an investment of £100 in the EOI in 1992 would at the end of December 2010 have been worth £860 whilst the same investment in the FTSE All-Share Index would be worth £249" (Employee Ownership Association and Field Fisher Waterhouse LLP 2011).

Standard Chartered's submission to the Macleod Review indicated that branches with high employee engagement grew their profit margin by 16% more than branches with low engagement. In addition, Accenture designated a single member of staff to create a single programme for employee engagement. After just six months engagement scores improved significantly, and net revenues increased by over 20% (Macleod & Clarke 2008).

In contrast to some of the above results, Lampel & colleagues (2010) analysis of employee-owned enterprises found that non-employee-owned enterprises performed better in 2005–08 in like-for-like (LFL) sales. However, during the UK recession of 2008–09, employee-owned retailers maintained 11% increases, compared to a fall to 1% in LFL sales growth in non-employee-led retailers.

The study also found that employee-owned enterprises organisations were broadly on a par for profitability with non-employee-owned organisations. The latter performed slightly better with respect to total profit between 2005 and 2008, but were outperformed by employee-owned enterprises in the period of recession during 2008–09. Non-employee-owned organisations did better with respect to profit per employee in 2005–08, but the gap narrowed significantly during the subsequent recession.

Finally, we should refer to a large meta-analysis undertaken by Gallup that considered various kinds of both intrinsic and instrumental benefits. This investigated the relationship between these benefits and employee engagement, and the caveats given earlier about the links between this and employee ownership and control needs to be born in mind. The researchers examined 199 studies across 152 organisations in 44 industries and 26 countries. Overall, they studied 32,394 organisations with nearly one million employees, exploring the relationship between employee engagement and nine performance outcomes: customer ratings, profitability, productivity, turnover, safety, shrinkage, absenteeism and quality. They found that "the relationship between employee engagement and performance is substantial and highly generalisable across organisations. Employee engagement is related to nine different performance outcomes. Business/work units scoring in the top half on employee engagement essentially double their odds of success in comparison to those at the bottom half." (Harter & colleagues 2009, p 3).

CONCLUSION

We have reviewed evidence from a wide range of sources and that uses a wide variety of data and methodologies. The review is not, and could not be, comprehensive. Nonetheless, it is hard to resist the conclusion that there is a significant body of reliable evidence suggesting that well-designed mutualisation in the public services has the potential for yielding considerable benefits in a wide variety of contexts. Such mutuals could be directly beneficial for their employees, with higher well-being, lower turnover and absenteeism than their competitors, and for the users of the service they provide, offering a higher quality service with superior customer satisfaction. The mutuals concerned could also be more innovative, more efficient, more productive and more resilient to turbulence.

It should be borne in mind that employee ownership may not be superior in every respect and at all times. Nor are they the answer to everything. Nonetheless the potential for a transformation of public services through the development of public service mutuals is considerable—and one that the Mutuals Taskforce is determined to realise.

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Written evidence from ResPublica

1. Co-operative Councils should generate “asset effects” in communities. Not only should a genuine co-operative model deliver customer-oriented services, but also provide opportunities for the creation of shared ownership. Following on from ResPublica’s flagship report, *The Ownership State: Restoring excellence, innovation and ethos in public services*, Phillip Blond will indicate that the generation of assets should be the aim of co-operative councils and that service recipients should over time generate an equity stake. The questions set by the Select Committee imply that co-operative council be conceptually confined to outsourcing the public service delivery to not-for-profit businesses in which service users would not be entitled to any significant involvement leading to any tangible benefits. Simply transferring the responsibilities of a local authority to an employee-owned mutual risks either an “employees’ cartel” that has little interest in empowering the users or the creation of a purely private interest from public money.

2. For a true mutualisation of public services, local councils should facilitate the setting up of co-operatives co-owned and co-governed by the “producers” and “consumers”—the employees and users of the service. Without some sort of stake (financial or not) for service users, public service mutuals risk further empowering professionals who will always take the lead in deciding what is best for the communities. Service users would also become like the early co-operative “traders” who believe that “the more you trade, the more you earn”, so that long term users of a public service could generate a stake for themselves. Such an evolved relationship between the state and the citizens would truly empower the communities in planning and running services. There are some successful cases of public service mutuals operating like this overseas, including Spain, Italy and Sweden.

3. A genuine co-operative model would draw together both the “consumers” and “producers” of public services, and enable the users of services to participate in service production and delivery. The reciprocity a public service co-operative offers to its consumers could generate tangible economic advantages at local level when the profits could be distributed amongst members as dividends and/or recycled back to the communities to support further public services, resulting in a sustainable accumulation of social and pecuniary capitals and substantially reduced reliance of citizens on state-funded models.

June 2012

Supplementary written evidence from ResPublica

Thank you for the follow-up questions from the MPs subsequent to my oral evidence given before the Committee in the inquiry session held on 11 June. My responses to their questions are detailed below.

1. *At the session on 11 June there was some discussion about “multi-stakeholder mutuals”, involving service users, employees and, potentially, the local authority*

— *For these types of mutuals, must there be agreement from the different stakeholder groups before decisions can be implemented?*

In the 21st century, the model for co-operatives (being a type of mutual) is not simply a member-only co-operative. It is a shift to a multi-stakeholder model (a “multi-way mutual”) that will *involve* and empower a wider community of people, including service users and their families, employees, volunteers and funders (eg local authorities). The core rationale of creating a cooperative lies in the democratic control by its members, which is one of the seven co-operative principles approved by the International Co-operative Alliance in 1995. However, the risk is that the co-operative structure can become captured by a particular cohort of members. Through extensive and intensive engagement of multiple stakeholders “who actively participate in setting their policies and making decisions”, the primary mission of a multi-stakeholder co-operative is generally broader than the interests and benefits of a single stakeholder group alone, and will often reflect the interdependence of interests of each stakeholder group and so generate a broader and deeper conception of the common good.

— *What happens when stakeholders disagree? Is organisational paralysis an inevitable consequence?*

Understandably, when public services have never been run by a “multi-way mutual” some observers rightly wonder if it is ever possible to reconcile disagreements arising from inherent conflict of interest amongst stakeholders who represent different needs and viewpoints. In this relatively new governance structure, consciously solidifying commonalities instead of highlighting differences may not be the natural response. If competitive animosity or indifference that might have characterised the users-providers relations in public service delivery is to be replaced by a co-operative mentality, it requires a set of very advanced communication and interpersonal skills of co-op members, but also a much more basic sense of what they as a whole are trying to do. Some observers, therefore, are concerned about the high transaction costs of a multi-stakeholder model (necessitated by the involvement of so many parties) and may even have predicted an inevitable consequence they called an “organisational paralysis”.

Like any other operative model, disagreements amongst stakeholders do occur from time to time. But, a “multi-way mutual” can provide a platform where differences in co-operative decision-making are offset by the efficacy of the organisation, and the trust that this success creates can help mitigate conflict and

disagreement. When stakeholders “co-own” the mutual and commit to a shared purpose, they can succeed where others fail as Nobel laureate, Elinor Ostrom, endorsed in her research on the self-governance of common resources. It should thereby be regarded as a more highly evolved co-ordinating mechanism for the collection and co-ordination of disparate information in the pursuit of common needs. With increased levels of information, trust and involvement resulting from a multi-stakeholder approach, the transaction costs, we suspect, will be more than offset by the gains in trust and shared information.

Research by Antonia Tomas of the Institute for Service Industry Research (Italy) in 2004 concluded that the struggles experienced by Italian multi-stakeholder co-operatives cannot be attributed to their governance structures. In fact, different stakeholder groups are able to maintain a focus on the overall mission and goals of these organisations. As an illustration, volunteer members typically contribute their time to these social co-operatives for altruistic reasons rather than to pursue individual interests; and similarly, investors are commonly donors dedicated to the social outcomes of these co-operatives and are not focused on financial returns. The highly engaging governance process results in both greater trust amongst stakeholders and better availability of information. (Tomas, 2004)

Moreover, research from Quebec (Canada) and Italy suggest that the assumption that a “multi-way mutual” would lead to “organisational paralysis” is not supported by empirical evidence, and in many cases, multi-stakeholder co-operatives are flourishing simply because they sustain a “commonly shared purpose”. In 2004, the Co-operatives Directorate, Ministry of Economic Development, Innovation and Export Trade, Government of Quebec (*Direction des coopératives, Ministère du Développement économique, de l’Innovation et de l’Exportation, Gouvernement du Québec*) conducted a survey of 179 multi-stakeholder (solidarity) co-operatives, incorporated between the 1 June 1997 and on 31 May 2002, in Quebec. It revealed a very high level of satisfaction with governance processes. Over 90% of respondents reported that the participation by different stakeholder groups at board meetings was excellent and, so too was the ability to achieve consensus amongst different stakeholders. Furthermore, when asked to identify forthcoming challenges, most respondents stated that economic issues, such as increasing total revenue and paying higher staff wages, were of more concern to them, rather than problems related to collective decision-making. (Chagnon, 2004) (Levitan-Reid & Fairbairn, 2011)

Italy is the first country to provide the formal legal recognition for the multi-stakeholder model, as it had legislated for social co-operatives to provide essential social services as early as 1991. Despite the prediction that these multi-stakeholder co-operatives would be inefficient or more confrontational than a single-constituency co-operative, more recent evidence in 2006 from Italy suggests that the well-being of different constituencies (ie stakeholder groups) within a multi-stakeholder co-operative is not a zero-sum game—one cohort of members does not need to win to the detriment of others, according to Borzaga & Depedri (2010). In a large comparative study which involves over 300 co-operatives, it was found that on both social and financial measures, workers proceeded equally well in co-operatives organised as multi-stakeholder and worker-only co-operatives—the addition of other stakeholder groups in this sample did not take away at all from the ability of co-op workers to achieve their objective of meaningful and remunerative employment. Therefore, “organisational paralysis” is not an inevitable consequence of this model. (Borzaga & Depedri, 2010)

The predictions expected from some observers may come from a simplistic analysis that actually overlooks that even a single-stakeholder-group co-operative model obscures a dynamic set of differences between members of a common class. For instance, credit unions, being one of the largest and strongest co-operative sectors worldwide, usually need to address the conflicting interests of borrower-members who desire low interest rates and depositor-members who favour high interest rates on a daily basis. We would like to reiterate that a multi-stakeholder co-operative is one where such differences of perspective and experience are not only tolerated but also *embraced*.

— *Do you think processes might be needed to assist the stakeholders to come to agreement and make decisions? If so, what might these be?*

As mentioned during the inquiry session, mutualism can cover a range of operating models. Today, there are about four legal models that fit essentially within the co-operative model, but none of them, bound by a nineteenth-century mind-set, address all the needs of a modern 21st century co-operative. The multi-stakeholder model I have been talking about cannot go to scale unless a new legalised form of company model is in place. Co-operatives have to move beyond a membership-only model to a more diverse one that includes all stakeholders, all of whom will have a different role. For instance, we favour a hybrid model that can on the one hand allow private sector funders to receive a good, “competitive” return, whilst also on the other hand receive a mutualised return on the benefits from that capital injection and investment. Currently, we fear that none of the current company models for both co-operatives and mutuals allow them to grow to sufficient scale—perhaps because they cannot as yet incorporate a partial and normal private sector return on investment. We should encourage a diversity of approaches which offer social plus economic productivity and that requires a new hybrid company model for mutuals.

However, it is understandable that one of the most fundamental decisions that members of a multi-stakeholder co-operative will need to make is the allocation of governance rights between different groups of members. If Parliament considers legislating for the subject model, the Government may “recommend” the approach proposed below for consideration of potential members of this type of mutual.

A PROPOSED GOVERNANCE STRUCTURE FOR A “MULTI-WAY MUTUAL”

In the interest of equality amongst members, traditional co-operatives adhere to the “one member, one vote” rule, with the exception of some secondary co-operatives (Co-ops of co-ops), which sometimes use “proportional voting”. Multi-stakeholder co-operatives also follow the same rule, but they often do so within the confines of the number of board seats allocated to each class of members.⁸ In principle, as the first step to building a trusting relationship in the process of effective multi-stakeholder governing, a successful multi-stakeholder co-operative must have inherent in its board structure the “check and balance” mechanism which defines any successful democracy.

To observe the spirit of a “participative democracy”, as opposed to a “representative democracy”, we indicated during the inquiry session that a “multi-way mutual” that could run public services may go even further. All members of a multi-stakeholder mutual should be given a board seat automatically. For instance, a “multi-way public service mutual” may have the following composition of members (stakeholders).

<i>Class of membership (stakeholders)</i>	<i>No. of members</i>	<i>Governance stake (non-financial)</i>	<i>Surplus stake (financial)</i>
I. Service users (and their families)	3,100	25%	30%*
II. Employees	80	25%	20%
III. Volunteers/Supporters	1,200	25%	10%
IV. Investors/Funders	100	25%	40%*
— eg Community residents			
— eg Local Authorities (represented by Councillors)	20		
Total	4,500	100%	100%

The size of each class of membership in a “multi-way public service mutual” is usually significantly different. However, equality amongst different membership classes means that they should all be given the same percentage of “stake” which is not necessarily financial.

On voting rights, all members are entitled to vote in this co-operative. An “agreement” is reached only when there is a majority vote (usually more than half) in each of the four classes of members (stakeholders). This arrangement aims to ensure no stakeholder group can dominate or be superior to another whilst the interests of all stakeholder groups are duly respected during the collective decision-making process.

In contrast to the Society for the Benefit of the Community (BenComm) in the UK, social co-operatives in Italy are permitted to distribute profits.⁹ This should be a core element of any potential Member’s Bill (whether private or public) legislating for a new multi-stakeholder mutual model. For multi-stakeholder co-operatives, the rights to the distribution of surplus is complex, which is due to the different levels of participation and patronage for different classes of members. The rights to surplus distribution in a “multi-way mutual” may or may not correspond to the allocation of governance rights above-mentioned. In its start-up, a mutual may decide, for instance, to pay something similar to a *preferred dividend** to “investors” who make significant financial contributions or; “service users and their families” whose livelihood depends on the financial success of the mutual whilst maintain equal governance stakes for them. A democratic mutual structure can be maintained, even when giving out differential returns to different types of members.

2. *When mutuals (of any stakeholder involvement model) are used to deliver local authority services, who should ultimately be accountable for the spending of public money? Should accountability always sit with councillors? How is this to be ensured?*

— *Do mutuals require particular organisational structures to guarantee accountability? If so, what might these be?*

Given the consistent low voter turnouts in local council elections, it is questionable that local accountability (for spending public money) can only be achieved through representatives who are directly elected by 10–20% of electorates and therefore do not necessarily correspond with the true needs and opinion of the electorate. Considering that this is exactly the type of representation that discourages public involvement, we are of a view that councils could and should harness (a) the community rights stipulated in the new Localism Act and; (b) the area-based budgeting pilots currently being run through DCLG to empower a more neighbourhood-based unit of accountability.

⁸ Acknowledging that some classes of members may have more to contribute and/or may have a more compelling interest in the success of the co-operative, multi-stakeholder co-operatives in Quebec, for example, may choose to allocate them a proportionately larger number of board seats while supporter members (who may have less direct interest in the co-op business) may be limited to a maximum of one-third of board seats, regardless of their number.

⁹ For social co-operatives in Italy, profit distribution is subject to the conditions that (i) distributed profits are restricted to 80% of total profits and; (ii) the profit per share is no higher than 2% of the rate on bonds issued by the Italian Post Office.

A “multi-way mutual” is an organisation which always subscribes to a collective decision-making process implemented by all classes of members or groups of stakeholders together. Rationally speaking, “collective decision-making” should go in parallel with “collective accountability”, which has been already ensured by such a multi-stakeholder governance structure. In this participative model of democracy, the extent of public accountability will be higher we suspect than the more traditional representational/electoral system currently delivers.

As a consequence, accountability should not sit just with councillors but everyone involved in the decision-making process. “Collective accountability” has an additional advantage that prevents councillors from making any “political decisions”, particularly during election years, which may not be in the best interest of the residents of their wards.

3. *What role would the local authority play in a world where all services were delivered by mutuals? Would it effectively become just a guarantor of service provision?*

— *What do you mean when you talk about service users? Should multi-stakeholder models involve just those who currently use the service, or members of the community as a whole?*

In a world where all or most of the public services were mutualised, the local authority would still perform a variety of roles other than guarantor of service provision. An effective co-operative council, as I suggested during the inquiry session, would facilitate co-operatives at infant stage and afterwards become an alternative financial/trust platform to enable co-operatives to go to scale, empower rights to challenge, utilise area-based community budgeting and ensure universality of standards through allowing local innovation. As already demonstrated by some mutualised housing associations which allow residents to manage their estates, the expected outcome of this movement is that the community environment is transformed for people at the very bottom with a co-operative capture of all the social services which can draw together both the service consumers and producers in their areas, and enable the service users to participate in service production and delivery.

A traditional price-driven business model, whether it is co-operative or not, may be perceived as simply transactional. A multi-stakeholder model should be seen as “transformational”. A “multi-way mutual” emerges not in response to the absence of a particular good or service in the marketplace, but rather as a response to the declining quality and *sensitivity* of essential public services in a conventional government-controlled marketplace in an age of austerity. Building a longer-term relationship based upon equal treatment for all parties, a multi-stakeholder mutual requires all members to look beyond their immediate short-term interests and join their business partners to envision a system where public service delivery will be truly democratised to meet the differential needs of everyone in both the short- and long-term.

Central to our evidence is our advocacy of multi-stakeholder involvement in the provision of public services. Beside service users, a “multi-way mutual”, as exemplified by Italian social co-operatives, will also engage families of service users, employees, volunteers and investors (eg local authorities), who are already members of wider community. In Italy, an investor category of membership allows bodies like local authorities to support the development of the social co-operatives and to safeguard their success. Social co-operatives there are often involved in joint planning of services with local authorities, which may have implications for the UK as it is pushing forward the concept of community budgeting, joint commissioning and even neighbourhood planning.

By “service users”, we refer to the recipients of and public sector funding and services (eg day care, home healthcare or other social services) who are also capital owners in the multi-stakeholder model. The table below exhibits the variations in membership classes of a “multi-way mutual”.

	<i>Service users and their families</i>	<i>Employees (as co-owners)</i>	<i>Volunteers/ Supporters</i>	<i>Investors/ Funders</i>
Short-term needs	— Accessible location and price	— Production costs covered; — Job security; — Fair wage	— A platform to campaign for certain social issues	— Existence of resource in community
Long-term interest	— Access to personalised services; — Predictable pricing and supply	— Sustainable source of income — Safe, respectful, gainful employment	— Accumulate social capital for community benefits	— Healthy and vibrant local economy
Non-financial contribution	— Purchasing power — Service feedback	— Professional knowledge and experience	— Time to volunteer — Specific expertise and networks	— Possible special expertise and acumen — Networks and relationships
Equity contribution	— Generally low	— Low–Medium	— Medium	— Quite High

	<i>Service users and their families</i>	<i>Employees (as co-owners)</i>	<i>Volunteers/ Supporters</i>	<i>Investors/ Funders</i>
Stake in outcome	— Low—High depending on alternative supply of services	— High	— Medium—High	— Low—Medium

Other than governance or financial stakes offered to community members as an incentive to engage in a public service mutual, there are a number of other ways to share information and invite participation, including preferred stock, membership in advisory boards, employee committee and partnerships, which have proven successful in the United States and Canada.

I hope the information provided above will be of use in your further considerations on the possibility of a nation-wide rollout of the co-operative council model. Again, thank you for the privilege of giving evidence before the Committee last month.

July 2012

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Written evidence from Lord Glasman

Thank you for the opportunity to give evidence to the committee and for these questions.

Before answering them directly a few sentences of clarification on the “multi-stakeholder model” are required. It is rooted in the English tradition of the balance of interests. Democratic self-government is not a form of DIY governance but puts a central stress on professionalism and leadership development. The governing body is made up of users, funders and workers who employ professionals to do the jobs but they are answerable to the governing body which sets out the strategic direction. Civil service and parliament is quite a good guide here. It is also rooted in the assumption that neither exclusively state nor market models have worked out very well. There are good working examples in Germany, Quebec and parts of the United States and this model draws upon them while embedding it in a distinctively English tradition and institutional structure.

Question 1. *Must there be agreement from the different stakeholder groups before decisions can be implemented?*

Answer. No. What is required is a majority of one for decisions to be binding on the group but this does require some agreement between the interests. It is not a unilateral management model in which either funders or workers, for example, are in control. To facilitate good practice and change there needs to be an agreement between stakeholders. The common good of any organisation can only emerge through the negotiation of a position between interests and this requires a balance of power between the groups to ensure that no one interest dominates. Schools are a good example. As it stands with free schools, parents are dominant, or in the status quo, the local authority or in the case of Academies, the State. In this model there are legitimate interests in all three stakeholder groups, funders, workers and users and each have a third of the seats and the decision making is predicated on finding a path that can make sense to at least some of the others. As with German Industry, Canadian care homes or Tuscan co-ops the decisions made are binding upon all. The evidence gathered by Kent State University’s Cooperative Development Centre, for example, in relation to this specific model is that there is a fluidity of position within the groups and a binding outcome follows discussion within the board. (*Solidarity as a business model: A multistakeholder co-op manual*. Kent State University, 2012: available online at www.oecokent.org/library/category/46/cooperatives)

Question 2. *What happens when stakeholders disagree? Is organisational paralysis an inevitable consequence?*

Answer. No. In the select committee evidence I addressed this point relating to decision making within professional stakeholder governance. This was the argument put forward against the German economic model in the 1980s and 1990s and it turned out that the negotiation of corporate strategy was far more effective in engaging the kind of changes required by globalisation and technological change. Volkswagen or Rover? It was also dismissed for the same reason in the 1990s and 2000s when it came to public sector reform. The results are in and explain why we are having this exchange. The lack of engagement of the workforce and users led to clientalistic culture in which there was not enough leadership, reciprocity or responsibility in the relationship between core groups. The negotiation of a common position is far more effective as a strategy than the imposition of a unilateral one and directly addresses the issue of cultural change in which users and workers have to engage responsibly with the improvement and delivery of services that are in their interests. As with all organisations there is a time frame, legal responsibilities and the necessity of decision. The outcome of a negotiated strategy is binding on all and has proved in the German case, for example, to be resilient and effective in sustaining a course of action. If there is no agreement on the proposals of one group, a new position has to be negotiated. Paralysis sets in when there is no link between the motor neurons and the body, this model establishes that link between mind and body through the tripartite corporate structure. There may be tensions, arguments and negotiation but that is the opposite of paralysis.

Question 3. *Do you think processes might be needed to assist the stakeholders to come to an agreement and make decisions? If so, what might these be?*

Answer. Maybe, and my preference would be for leadership development where the definition of leadership is having followers and bringing them with you. When it comes to the workforce and the users they will be democratically elected and will represent interests. The key capacity building must lie in organising and leadership and this is recognised in the role of Locality in the Big Society initiative. Each interest will also need to negotiate among themselves, but ultimately governance is complicated, mundane and difficult. The awareness of this reality needs to be passed down the food chain so that workers and users recognise constraints and the importance of judgement and decision. Leadership training along the model of the IAF in the States in which relationship building, an understanding of power and strategic action are at the fore would be the best preparation and then learning from doing, which is the best teaching method of all. Evaluation is a neglected aspect of this, and should follow all board meeting within the interests.

Question 4. *Do mutuals require particular organisational structures to guarantee accountability. What might these be?*

If there is one lesson of the crash it is that accountability is too important to be left to accountants. Services are delivered by institutions and those institutions are responsible for the delivery of services. Funding requires accountability, but so does the work. The move from client to citizen also requires this of users. So, the institution; school, care home, doctors surgery, social service, should be understood not as a policy or a programme but as an institution and the institution is legally responsible for its delivery. The representation of the funders, the local authority in this case, requires that they pursue their interest in accountability, efficiency, transparency and the integration of policy into wider social goals. The local authority is the force that stops the institution becoming entirely self-referential and closed. It upholds legality as a fundamental norm. The assumption is that an exclusive or dominant role for funders leads to the neglect of the internal particularities of the service as they relate to the specific nature of the work and the people who are served by the institution. The legal framework sets the bounds. This is enforced by the local authority and by the institution. The publication of accounts is one aspect of this, but people don't pay much attention which is why there needs to be internal accountability where the workforce question the use of funds with some internal specialist knowledge as do users. If the institution fails that is a political matter in which the State, local authority and the police can be involved, as happened with Hackney Council a couple of decades ago under the local authority model.

Question 5. *What role would the local authority play in a world where all services were delivered by mutuals? Should multi-stakeholder models involve just those who currently use the service, or members of the community as a whole?*

Answer. The local authority is a key stakeholder and would have a third of the seats on the governing board. It would actively engage in the internal governance and delivery of the service in partnership with the workforce and users. It would share responsibility in the delivery of the service, that is the point. The institution itself would be legally responsible for the delivery of the service, of which the local authority is a crucial part. The election of the users would be done by users who would be free to elect who they thought best. One possibility that my experience would suggest might happen is that in a heavily Muslim area, for example, users might elect a representative of the Mosque, who lived locally, to represent sensitive religious issues relating to food, autopsy and the treatment of the body in relation to hospitals. Once again, this would have to be negotiated with doctors, coroners and funders but would give some idea of the mix expected on the corporate governance board. The key point, as ever, is the balance of power in the corporate governance of the institution.

I hope this is sufficient but please let me know if you wish anything more and it is a great honour to be asked.
July 2012

Written evidence from Co-operatives UK

1. Co-operatives UK greatly welcomes the select committee's decision to hold an enquiry on "the co-operative council". 2012 has been declared by the United Nations as International Year of Co-operatives, during which the world's 1.4 million co-operatives will be celebrating the movement's enduring success and its resilience in the face of economic crises and fierce competitive pressures. In the UK, the International Year will culminate with Co-operatives United.

CO-OPERATIVES UNITED 29 OCTOBER–2 NOVEMBER 2012

An inspiring global festival of events and exhibitions set in Manchester to mark the close of the United Nations International Year of Co-operatives. With one world premier, three exhibitions, 10 conferences, 45 countries, 150 workshops, 200 exhibitors and 10,000 people, Co-operatives United will inform and inspire everyone building an ethical economy and a better world.

2. Co-operatives UK is the national trade body that campaigns for co-operation and works to promote, develop and unite co-operative enterprises. We have a unique role as a trade association for co-operatives. We work to promote the co-operative alternative across many sectors of the economy from high street consumer-owned co-operatives to pubs and renewable energy, healthcare to agriculture, credit unions to community owned shops.

3. The Co-operative movement worldwide is based on a set of values and principles, last reviewed and agreed by the International Co-operative Alliance in Manchester in 1995. The "statement on the co-operative identity" is appended to this submission.

4. We have welcomed and supported an increasing level of interest over the last few years in co-operative enterprise and co-operative ways of working from Government at various levels (national and devolved as well as local). Although it is not entirely new (eg many local authorities sponsored local co-operative development agencies in the 1980s) the recent wave of interest seems to us to be much deeper and far reaching. Such engagement with co-operative values and principles by local Government is, in our experience, unprecedented.

5. As an autonomous, non-party political body, Co-operatives UK is keen to work with all elected politicians and their officers, including, of course, members of the Co-operative Councils Network, who show a genuine affinity with co-operative values and principles to determine the best ways in which the variety of co-operative models can be deployed to help deliver high quality public services.

6. There are distinct benefits for any organisation, such as a local authority, to use the term co-operative and associate itself with the co-operative movement. Market research that Co-operatives UK carried out in 2011 showed that co-operatives are part of everyday language and that associations of fairness and trust attached to a business being co-operative are high.¹⁰ Furthermore, there is strong evidence¹¹ that co-operation is good for people emotionally, as well as advantageous for organisations and societies, so that bodies such as local authorities that are charged with securing the well-being of their citizens would do well to encourage co-operative behaviours and to lead by example in this respect.

QUESTIONS POSED BY THE SELECT COMMITTEE

(a) *What is the difference between a co-operative council where services are supplied by not-for-profit businesses and other local authorities?*

7. We think it is important to point out that the use of the term "not-for-profit" can be unhelpful and misleading. Co-operatives trade in the market place and in order to be successful they do aim to make a profit, in the sense that their earnings need to exceed their costs, with a sufficient margin to at the very minimum allow for future investment. But they differ fundamentally from "for profit" businesses in a number of ways:

- They are not profit-maximisers, they are utility-maximisers. Profit is a means to an end, not the end in itself.
- Profit is not a reward for outside investors; rather, profits are reinvested in the co-operative, shared amongst everyday people—the members—and invested in the wider community. And unlike private businesses, this latter application of profits for community benefit is not discretionary "corporate social responsibility", it is a defining, inescapable characteristic of co-operatives, enshrined in the seventh co-operative principle.
- The distribution of any profits is decided democratically, by the members.

8. The term "surplus" is sometimes used instead of "profit" to make this distinction clearer.

¹⁰ *Good business? Public perceptions of co-operatives*, Giles Simon and Ed Mayo, Co-operatives UK, 2011.

¹¹ See, for example, *The Psychology of Co-operation*, Oliver James, Co-operatives UK, 2011.

9. Reinterpreting the question to one that addresses the differences between councils that deliver services through co-operatives and mutuals and those that don't, we would expect to see the former:

- Making explicit reference to the co-operative values and principles in policy and decision making.
- Linking up with co-operatives in their area.
- Creating specialist advice, training and other infrastructure to support the development of co-operatives.
- Exploring ways of introducing co-operative ideas, values, cultures and ways of working within their own structures.

10. Many local authorities have been delivering services through co-operatives and mutuals for years. Examples include:

- Leisure trusts, such as GLL, which provide sport and leisure services throughout the country and have a strong track record in quality and innovation.
- Housing co-operatives and tenant management organisations, such as the Preston Community Gateway, the Walsall Association of Tenant Management Organisations and the recently established Rochdale Boroughwide Housing, which have an equally strong record in, for example, improving maintenance performance, reducing voids, innovating and improving their estates.
- Social services, such as the highly successful Foster Care Co-operative, which is expanding into new areas of the country.
- Schools, with over 200 co-operative schools (trusts, academies, specialist, primary and secondary).

11. There is a lack of systematic evidence-based research on the conditions under which local authorities adopt co-operative approaches to service delivery, but we suggest that they include:

- An organisational culture, including both elected member and officer leadership, that includes being open to new ways of working.
- An adequate understanding of what co-operatives and mutuals are at various levels of management and workforce, and/or a willingness to learn more.
- Relations between employers and trade unions being sufficiently positive and collaborative.

(b) *What arrangements need to be put in place to deliver services by not-for-profit businesses such as employee-owned mutuals?*

- (i) *More specifically, what are the barriers to establishing not-for-profit businesses to supply services?*
- (ii) *What role does a local authority have in promoting and incubating a not-for-profit business?*
- (iii) *And where does accountability lie?*

12. It follows from what we have said above that a lack of knowledge and understanding of co-operatives by local authority members, management and staff is a major barrier to greater use of co-operative models.

13. A further barrier is the current context of reduced expenditure and pressure on jobs and conditions of service. This is a difficult setting in which to introduce new forms of delivery, which can easily be read as camouflage for that process. For many staff and their trade unions "mutualisation" is often portrayed as "back door privatisation", to which they are strongly opposed.

14. Running a service as a business and outside the local authority's structure will be unfamiliar to the people concerned and call on an extensive range of skills that they might not possess. There is a need for high quality, adequately resourced, co-operative business advice and support and, crucially, sufficient time for all concerned to make such a radical transformation in their working lives.

15. Accountability to stakeholders is through the well-tried democratic processes that are at the heart of co-operative structures. Accountability to the wider community continues to be through the local authority's structures and electoral mandate.

(c) *What are the advantages and drawbacks of providing services via not-for-profit businesses?*

16. Co-operatives deliver greater engagement by stakeholders and enable those stakeholders to work together directly to provide the best quality services.

17. As local enterprises, co-operatives are rooted in, and loyal to, their communities, thereby retaining wealth in the area and providing services that are sensitive to local needs.

18. Drawbacks are that co-operatives often find it hard to access finance, some of the professionals they have to deal with are unfamiliar with them and it takes time for the co-operatives' members to learn new ways of working.

4. *Where services are delivered by not-for-profit businesses what difference will the local resident and taxpayer see?*

19. We would expect to see greater citizen and staff engagement with service delivery, more innovative services and, frequently, a more efficient service as users, staff and the community are brought closer together and enabled to act in their mutual interests.

May 2012

THE STATEMENT ON THE CO-OPERATIVE IDENTITY

The Statement on Co-operative Identity was adopted at the 1995 General Assembly of the International Co-operative Alliance (ICA), held in Manchester on the occasion of the Alliance's Centenary. The Statement was the product of a lengthy process of consultation involving thousands of co-operatives around the world.

THE INTERNATIONAL CO-OPERATIVE ALLIANCE: STATEMENT ON THE CO-OPERATIVE IDENTITY

Definition: A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values: Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles: The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including Governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for Community

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

Adopted in Manchester (UK) 23 September 1995.

Written evidence from the Trades Union Congress

EXECUTIVE SUMMARY

- The TUC supports moves to empower public service workers and forge closer relationships between service users and public sector professionals through greater cooperation in the design and delivery of local authority services.
- However, we maintain a number of concerns about the coalition government's public service mutuals agenda in terms of its aims, its practical implementation and its potential consequences for public services.
- Driving out more functions to the market through public service mutuals and co-operatives creates further fragmentation, leaves mutuals and services vulnerable to competition and takeover by private sector competitors and potentially worsens working conditions and job security for public sector workers.
- The success of public service delivery through employee-owned mutuals depends on a range of mitigating factors. Critical conditions of success might include long term contracts, staff buy-in, contract lock-ins, support and advice, protection of employment standards and effective governance mechanisms.
- Evidence of the benefits of employee-owned mutuals delivering public services is patchy. Moreover, there is little evidence that mutuals in themselves are the reason for improved public service delivery or that similar service improvements cannot be achieved through in-house improvement models.
- UK and EU public procurement legislation means that there is no right to award contracts to any particular group of enterprises and that employee-owned mutuals will be in open competition with the private sector. Experience so far suggests that they will compete at a disadvantage and that marketisation of public services leads to privatisation.
- This process of marketisation is being entrenched by the coalition government through its Open Public Services agenda and key pieces of legislation such as the Community Right to Challenge.
- Outsourcing of public services will lead to a complex range of competing service providers, covering a range of different organisational forms. Navigating this landscape will be particularly problematic for vulnerable service users with complex and multiple needs.
- Accountability will be compromised as the democratic institutions of the state withdraw and are replaced by providers from alternative sectors, where accountability will be complex and managed through contract compliance rather than direct accountability to elected representatives and democratic institutions.
- Evidence from the outsourcing and marketisation of public services suggests that in many cases additional costs are incurred and, increasingly, public sector organisations are looking to in-source services in order to achieve greater efficiency and better value for money for the taxpayer.

What is the difference between a co-operative council where services are supplied via not-for-profit businesses and other local authorities?

1. Given the terms of reference of the inquiry, we are assuming this (and subsequent questions) refer specifically to "not-for-profit businesses owned and controlled, in full or part, by the people who work for them" as opposed to not-for-profit businesses in the general sense.

2. According to research by the Office for Public Management (OPM),¹² the potential benefits derived from employee ownership models, eg innovation, efficiency and creativity, only work where there is genuine employee ownership and buy-in. This process cannot be driven from the top. Unfortunately, experience so far suggests that the design and implementation of mutuals within local authorities is entirely being delivered from the council leaderships and senior management.

3. To date, evidence of local authorities delivering this model of provision is very limited.

4. Of the 21 pathfinder mutuals announced by the government in 2012, six are located within local authorities and none have yet to officially launch. There are 21 councils in the Co-operative Councils Network. The network incorporates a range of councils adopting different approaches to the promotion of co-operatives, from a broadly defined concept of co-operation between employees, council leaders and service users in the design and delivery of services to authorities actively promoting the spin out of co-operative enterprises. Again, few tangible initiatives have taken off to date and evidence of the impact on delivery is therefore negligible.

5. The central role that staff buy-in plays in the success of co-operative models has been echoed by organisations like Co-operatives UK as well as the government. Nick Hurd, Minister for Civil Society assured us that "the government will not seek to dictate what is best for employees".¹³

¹² New Models of Public Service Ownership: a guide to commission, policy and practice, OPM, August 2010.

¹³ *Hansard*, 7 June 2011.

6. Feedback from unions within the local authorities involved in both the Pathfinders project and the Cooperative Councils Network suggest that in all cases the drive for mutualism has been top down and has largely been used as a means of implementing restructuring. There is no evidence of local authorities adopting co-operative and mutual strategies in response to calls from employees through the Right to Provide or other bottom up initiatives. Engagement with unions has been variable.

7. This is not to say that employees are uniformly opposed to proposals. Staff votes at Kensington and Chelsea suggest that there is support for the plans to mutualise youth services. However, an in-house option has not been proposed and the mutual option was largely seen as the only means of guaranteeing sustained funding and job protection through a five year contract and the workforce has been assured of retaining admission into the Local Government Pension Scheme.

8. This reflects problematic implementation of employee-owned mutuals that have been witnessed in other parts of the public service such as the NHS and civil service.

9. Evidence from Unite, UNISON and CSP suggests that in the vast majority of cases where staff in the health service have been balloted, the majority have chosen to remain within the NHS. In many cases the results have been emphatic, as the following table indicates:

PERCENTAGE OF PRIMARY CARE TRUST STAFF
VOTING AGAINST THE TRANSFER

	%
Cornwall	81
Plymouth	74
Shropshire	85
Greenwich	86
Mid Essex	97
Sandwell	67
Cornwall and the Isles of Scilly	80

10. In some cases, such as Greenwich, Sandwell and Shropshire, these overwhelming votes against transfer have led to a change of course and the retention of services within the NHS. However, in other cases, such as Mid Essex and Cornwall, the views of the staff have been ignored and the move to social enterprise status has been driven ahead regardless.

11. The government cites MyCSP as an exemplar mutual spinning out from the civil service. However, there has been minimal consultation or negotiation with the workforce or union and PCS members at MyCSP have been so hostile to the move that industrial action was held in July 2011 and a staff survey completed by 211 of the 380 staff at MyCSP found that 94% did not agree that turning them into a “mutual joint venture” would “empower employees and drive up performance”. 95% said they wanted to retain their civil service status—a request that the government has refused.

12. Of course, there are more long standing examples of both employee-owned and multi-stakeholder mutuals delivering public services, particularly in the areas of housing and leisure.

13. Research by the Association of Public Service Excellence (APSE) found that evidence of the benefits of public service delivery through mutuals was patchy but there were examples of mutuals (eg Oldham Community Leisure) where there was genuine staff and community buy in and other critical conditions of success, eg funding and specific support, and therefore community benefits accrued as a result.

14. Perhaps the most important conclusion of the APSE research was that “the evidence does not suggest that delivering benefits for the local community is unique to co-ops and mutuals or that they are necessarily any more efficient than in-house services at doing so. The evidence simply suggests they can deliver those benefits”.¹⁴

15. In every case, the correlation between delivery of community benefits and the use of the mutual model was dependent on the interaction and relationships between the public service authority, the staff, the community and the specifics of the contract conditions and funding. Simplistic attribution of benefits to the mutual model of delivery were insufficient, as APSE concluded “the complex configuration of conditions that need to be in place in order to produce specific successful outcomes highlights the fact that there are a range of organisational and contextual conditions that policy makers must take into consideration.”¹⁵

¹⁴ *Proof of Delivery*, APSE, 2011.

¹⁵ *Proof of Delivery*, APSE, 2011.

What arrangements need to be put in place to deliver services by not-for-profit businesses such as employee-owned mutuals? More specifically, what are the barriers to establishing not-for-profit businesses to supply services; what role does the local authority have in promoting and incubating a not-for-profit business; and where does accountability lie?

16. Based on the aforementioned research, APSE identified three critical conditions for success in adopting the mutual model, these are:

- (a) A contract length of five years or longer, which also locks in previous benefits.
- (b) Buy in from staff and/or citizens.
- (c) Support, advocacy and expert advice.

17. In their report of June 2011, the All Party Parliamentary Group on Employee Ownership stated that they favoured “longer contracts for employee led mutuals, such as five to seven years in length, and do not see any conflict if the ultimate aim is increased diversity in supply.”¹⁶

18. In their report on European public service mutuals, Co-operatives UK identified three key lessons from the successful models in Spain, Italy and Sweden.

- (a) All were set up to meet specific demands from local communities based on tangible needs.
- (b) All have grown in partnership with state services. Whether this is achieved through creating specific funding mechanisms, through procurement or capacity-building, state support has been integral to the growth of mutuals.
- (c) In all three countries, there are clearly defined models of public service mutual. For example, in Italy, the legal structure makes specific reference to community interest and the procurement regime allows preferred bidder status on the basis of this.

19. This last point is particularly important in a UK context where Co-operatives UK state there is “an array of different models and some risk therefore that core elements of being a mutual or a co-operative could be watered down in favour of quasi-mutual private enterprises”.¹⁷ The fact that the coalition government promotes both MyCSP and Circle Healthcare as best practice models of employee-ownership suggest that this is certainly the case.

20. The TUC believes that when considering mutualisation of public services, the following areas need to be looked at further:

- (a) Consultation—how can we ensure that the agenda is employee driven?
- (b) Commissioning—how can we ensure that open competition does not lead solely to privatisation?
- (c) Governance—what exactly do we mean by the terms “mutual” and “co-operative” and how can we ensure genuine employee (or multi-stakeholder) ownership and participation?
- (d) Safeguarding—how do we protect public assets from private takeover?
- (e) Employment standards—how do stop the race to the bottom?

21. As such, we believe that other key conditions that are critical to the success of public service mutuals include:

- (a) Explicit evidence of workforce engagement and buy-in, through dialogue with appropriate trade unions and the use of staff ballots.
- (b) Contract lock-ins that protect services and assets from transfer to the private sector in the event of failure or transfer of ownership.
- (c) Governance structures that adhere to the seven principles of co-operatives outlined by the International Co-operative Alliance, including clear mechanisms for ensuring workforce representation and majority ownership.
- (d) Protection of employment standards, including admission to relevant public service pension schemes.

22. There are a number of barriers that local authorities will face in the development of employee-owned public service mutuals.

23. The role of the local authority in nurturing fledgling mutuals may be inhibited by the need to comply with its own financial standing orders as well as UK and EU public procurement legislation and State Aid rules that require open and competitive tendering.

24. Where local authorities do provide three to five year start up contracts, this may open them to challenge from private providers looking to access that particular market. This will be particularly strengthened by the coalition government’s plans to strengthen the right of providers to appeal where they feel they have been “unfairly excluded from the commissioning process”.¹⁸

¹⁶ *Sharing Ownership*, APPG, 2011.

¹⁷ *Time to get serious: international lessons for developing public service mutuals*, Co-operatives UK, 2011.

¹⁸ *Open Public Services 2012*, Cabinet Office, 2012.

25. Coalition government policy will also further entrench marketisation of public services through other ways. For example, the Community Right to Challenge within the Localism Act gives powers to employees to challenge existing services and to bid for the services themselves. However, the Right to Challenge simply triggers an open procurement exercise where fledgling mutuals will be in competition with private providers, who are usually better placed to win contracts through their expertise, experience, capacity, ability to raise capital and economies of scale.

26. Recent evidence in the health service, local authority auditing services and the DWP's work programme shows that in the public services market, the employee-owned social enterprises like Central Surrey Health, DA Partnerships (the employee-owned mutual set up by Audit Commission staff) and a whole range of voluntary and community organisations have lost out in competition to private providers.

27. Other options open to local authorities for the incubation of new mutuals might lie through Teckal subsidiaries. However, Teckal options do not provide the autonomy or ability to diversify and grow that genuine employee-owned mutuals would require.

28. Staff buy-in is essential for the successful implementation of mutuals. However, as we have seen, most local authority proposals have come through top down restructuring and staff support has only been deliverable where the plans have entailed some guarantee of funding and protection of jobs and employment standards, including admission into the relevant pension scheme. It is notable that the early staff spin-outs from Primary Care Trusts in Surrey, Kingston and Hull enjoyed continued access to the NHS pension scheme. The extent to which this is affordable and sustainable in the long run is debatable.

29. The protection of employment standards for those workers delivering the service is crucial to the success of public service mutuals. There is a range of impacts on the workforce arising from the outsourcing of public services including reduced employment, reduced pay and access to pensions, increased use of fixed term and non-traditional employment and the reduction and fragmentation of collective bargaining coverage.

30. This is particularly evident for staff within the broadly defined "third sector" where evidence from UNISON and Unite suggests that even in the relative boom years for the sector in 2005–07, price competition was driving down funding and staff pay and benefits. This has been intensified recently as spending cuts begin to bite and contracts become renegotiated.

31. Evidence suggests that several organisations are either suspending or abolishing incremental pay progression or are considering it and that many more are looking for new flexibilities in terms and conditions in a sector that is not known for over-generous pay—at least at the lower levels.¹⁹ The Charity Pulse staff survey indicates growing dissatisfaction among the charity workforce. It found that the numbers reporting increased workloads, worsening work life balance, worsening pay and reduced job security had increased significantly from 2007–11. The CIPD reported that 23% of charity staff were seeking new jobs compared to 17% in the public sector and 19% in the private sector.²⁰ Other research evidence indicates that third sector organisations are responding to the increasing need to compete for service delivery contracts by reducing staff, cutting terms and conditions and that smaller organisations are finding it increasingly hard to survive.²¹

32. Feedback from unions within local authorities suggests that there is insufficient support and guidance for the process of mutualisation. Use of the government's Mutuals Information Service appears limited. Moreover, there was little clarity about how this process should be managed within local authorities. While the government might argue that it is taking a necessarily non-prescriptive approach to the implementation of mutuals, this has led to a degree of confusion within local authorities about where responsibility lies, how the process is managed and what information can be provided.

33. The context of public sector funding cuts and the restructuring and divestment of services resulting from this provides a huge barrier to effective long term planning and the design of services to meet need. In most cases, there has been little in the way of genuine options appraisal or business cases drawn up in relation to mutualisation. Feedback from unions within local authorities indicates that mutuals have been proposed in order to meet a diverse range of perceived structural and corporate needs, usually linked to funding cuts, with little regard for how the service might be improved and why the mutual model is the best vehicle for achieving those goals as opposed to other options, including in-house service improvement plans.

What are the advantages of and drawbacks to providing services via not-for-profit businesses?

34. We have heard on numerous occasions that mutuals improve performance management, encourage innovation, increase productivity and reduce absenteeism. While these are still the early stages in the mutuals roll out, it is worth tempering these claims until there is a more robust evidence base.

35. In looking at the evidence of employee-led spin outs so far, the Public Administration Select Committee (PASC) reported that it was "unable to corroborate" these claims and that "too much of the discussion is still hypothetical and anecdotal".²² The Third Sector Research Centre report on social enterprise spin-outs from

¹⁹ "Government policy, recession and the voluntary sector", Steve Davies, University of Cardiff 2009.

²⁰ "Worse pay, better management", Third Sector, 12 July 2011.

²¹ *False Economy? The costs of contracting and workforce insecurity in the voluntary sector*, Dr Ian Cunningham, University of Strathclyde, and Professor Philip James, Oxford Brookes University.

²² *Public Services and the Third Sector: Rhetoric and Reality*, PASC, July 2008.

the NHS found an “absence of a convincing body of evidence that such organisations can consistently deliver the expected innovation and efficiencies in health provision”,²³ the Department of Health’s (DOH) own findings are that “the benefits of the social enterprise model are not always clear, not only to potential commissioners, but also to staff and stakeholders”.²⁴

36. The most systematic review of the evidence base for the effects of mutuals and co-ops delivering public services, undertaken by APSE found “a paucity of evidence informing the current claims over the performance of co-ops and mutuals in delivering public services”.²⁵

37. While it may be the case that benefits can accrue, particularly when a number of conditions are met, many assertions are clearly based on aspiration and speculation rather than firm evidence.

38. Another important point to consider is the relationship between employee-ownership and employee-engagement or participation. The Employee Ownership Association (EOA) states that evidence suggests that the: “clearest benefit from employee ownership is when employee-owners have more say in the running of the company. What is less clear is the extent to which employee ownership inevitably leads to increased employee participation in decision-making”.²⁶

39. Based on studies from the UK, USA and Sweden, they found that “employee ownership and engagement... are not necessarily correlated”²⁷ and that in several cases there had been no increase in employee participation or following an initial period of enthusiasm participation decreased over time.

40. This should caution us against glib assumptions that the structural change leads us to promised goals. It also leads us back to the question, if employee participation is where benefit is derived, are there not models for enhancing employee participation within an in-house model?

41. Significant drawbacks will occur in service delivery through the coalition government’s use of market based models of public service reform that underpin the implementation of public service mutuals.

42. Market-based approaches to public service reform have generally failed to deliver promised improvements, with public services largely privatised and characterised by market concentration, reduced accountability, detrimental impacts on the conditions of public service workers and high profile project failures bailed out by the taxpayer.

43. Evidence suggests that the market approaches often contribute to the decline in public service quality through cost-cutting, short-termism, reduced investment, fragmentation, inflexibility due to narrowly defined contract specifications and reduced capacity for whole system approaches to quality improvement across public services.

Where services are delivered by not-for-profit businesses what difference will the local resident and local taxpayer see?

44. Service users will be faced with a complex range of competing service providers, covering a range of different organisational forms with different forms of accountability. Navigating this landscape will be particularly problematic for service users with complex and multiple needs dependent on a number of different providers, where clearly defined, integrated and holistic interventions are required.

45. Accountability will be compromised as the democratic institutions of the state withdraw and are replaced by providers from alternative sectors. Providers from the private and voluntary sector will be outside of the scope of the Freedom of Information Act and lines of accountability will be complex and managed through contract compliance rather than direct accountability to elected representatives and democratic institutions.

46. There is a widespread expectation that delivery of public services through employee-owned mutuals will provide cheaper and more efficient services. Writing for The Guardian in August 2010, Francis Maude made clear the link clear between mutuals and cost savings when he said “in a time when we need to save money we have to be ready to explore ideas like this”²⁸

47. However, as both APSE research and Co-operatives UK’s study on European co-operatives shows, the development of mutuals is not a cheap option, it requires up- front investment and sustained funding.

48. Moreover, evidence from outsourcing and privatisation of public services suggests that in many cases additional costs are incurred and, increasingly, public sector organisations are looking to in-source services in order to achieve better value for money and greater efficiency.

²³ *Social enterprise spin-outs from the English health service: a Right to Request but was anyone listening?*, TSRC Working Paper 52. January 2011.

²⁴ *Leading the way through social enterprise* DOH, March 2010.

²⁵ *Proof of delivery? A review of the role of co-ops and mutuals in public service provision*, APSE, August 2011.

²⁶ *The employee ownership effect: a review of evidence*, Matrix Evidence, March 2010.

²⁷ *Ibid.*

²⁸ <http://www.guardian.co.uk/commentisfree/2010/aug/12/mutuals-empower-public-sector>

49. As well as additional expense incurred through on-costs generated by alternative providers, the complex process of marketisation, contract management, evaluation and monitoring creates additional transaction costs for the taxpayer.

50. The OFT observed that “evaluating bids is costly, in particular where the buyer’s needs are complex and requirements cannot be specified in a simple way”²⁹ and a related point was made by the Audit Commission, which noted that “at least some” of the apparent savings claimed for Compulsory Competitive Tendering “were offset by the costs associated with managing competitive processes.”³⁰

51. Research by APSE found that the “need to improve efficiency and reduce service costs’ was the most cited reason for in-sourcing” by local authorities with 58.7% of respondents agreeing that this had been key.³¹

52. Advantages from in-house delivery cited by local authorities in the study included the reduction of “client monitoring and contract management time and costs”, “greater efficiency” and “greater flexibility”. More than 63% of respondents said that they anticipated financial savings as a result of in-sourcing. APSE states that: “a key consideration for local authorities in bringing a service back in-house is the anticipation of financial savings, through more agile and flexible ways to manage local services.”³²

May 2012

Written evidence from Winckworth Sherwood LLP

1. Introduction

1.1 This submission is from Joanna Bussell, Partner in Winckworth Sherwood LLP, who has advised over 70 local authorities on the transfer of a range of local authority services to existing or newly established not-for-profit businesses and charitable trusts, supported by Simon Randall CBE, a Consultant at Winckworth Sherwood LLP, who is Chairman of the Conservative Co-operative Movement and a former London Borough Councillor, assists Joanna with the creation of not-for-profit businesses owned or controlled in full or part by people working for them. Indeed, the team has probably more experience in this area than most firms of solicitors.

1.2 The areas where such entities have been incorporated include leisure, culture, housing and heritage and the corporate entities have been both charitable and non-charitable, companies limited by guarantee or industrial and provident societies.

1.3 This submission is accordingly provided on the basis of experience gained in such outsourcing by local authorities and we propose dealing with the specific areas referred to in the Committee call for evidence. However, specific documents to which we refer are available on the links shown below:

1.3.1 *The Government’s programme: the Coalition*—our programme for Government which contained the following paragraphs:

“We will support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services.

We will give public sector workers a new right to form employee-owned co-operatives and bid to take over the services they deliver. This will empower millions of public sector workers to become their own boss and help them to deliver better services”.

This latter right has now been incorporated as the Right to Challenge in the Localism Act 2011 which is likely to become operative within the next few months.

1.3.2 *Trusts for Big Society* which outlines the advantages and disadvantages of the trust approach in respect of many local authority services. <http://www.wslaw.co.uk/knowledge-centre/our-publications/download/239/>

1.3.3 *The Trust Option for Heritage Services* which deals with the process involved in considering alternative options. <http://www.wslaw.co.uk/knowledge-centre/our-publications/download/278/>

1.3.4 *The Right to Challenge* which outlines the process for local authority employees exercising this right under the Localism Act 2011. <http://www.wslaw.co.uk/knowledge-centre/our-publications/download/279/>

1.3.5 *Co-operatives in the Big Society*—a publication of the Conservative Co-operative Movement outlining the opportunities afforded by co-operatives and providing a number of examples and areas of operation where co-operatives have been successful. <http://www.conservativecoops.com/pdf/Co-operatives-in-the-big-society.pdf>

²⁹ *Healthy Competition: how councils can use competition and contestability to improve services*, Audit Commission, November 2007.

³⁰ *Assessing the impact of public sector procurement on competition*, OFT, September 2004.

³¹ In-sourcing Update, APSE, 2011.

³² *Ibid.*

2. Executive Summary

2.1 The Government are promoting mutual, co-operatives, charities and social enterprises to run public services.

2.2 The Localism Act 2011 incorporates the Right to Challenge which should be embraced by all local authorities encouraging their staff to create an employee-owned co-operative or other non-profit distributing organisation (“NPDO”) to run their service.

2.3 Experience has shown that such NPDOs have significant advantages, particularly with active staff involvement, and are likely to provide a better service to residents and local tax payers.

2.4 Many NPDOs created to manage public services have expanded innovatively and sustainably to improve their services, create additional local employment and benefit their staff.

2.5 The tasks ahead for any nascent NPDO can be daunting with all the red tape involved in their creation plus the legal and practical issues.

2.6 We hope your Committee will promote a good practice guide for the Right to Challenge and urge the European Commission to amend the draft procurement directive to permit a temporary exemption for employee-led organisations/mutuals.

2.7 The planned Co-operatives Bill affords a great opportunity to simplify the existing legislation and improve the corporate framework in which co-operatives operate.

3. Advantages of and drawbacks to providing services via not-for-profit businesses

3.1 The concept of a not-for-profit business does, of course, include not only conventional employee-owned co-operatives and mutuals but also non-charitable social enterprises, such as community interest companies, and charitable trusts. These latter organisations which have taken over outsourced activities and services from a local authority frequently have the head of the paid service as an ex officio member of the entity’s board, as well as one or more elected staff members on such board. Thus our comments in answer to the queries raised by the Committee will deal generally with all entities where there is significant “ownership” of employees in the ownership or management of such entities and we use the term “non-profit distributing organisations” or “NPDOs” to stress the fact that they are not beholden to external shareholders (except the community interest company).

3.2 There are a significant number of benefits of providing service through not-for-profit businesses and these are set out in more detail in our publication *Trusts for Big Society*. However, they can be summarised as follows:

- 3.2.1 Single focused body able to concentrate upon delivery of its core business. Such focus and freedom provides an exciting opportunity for the management team to use their innovative skills.
- 3.2.2 The NPDO could, without changing its community and social obligations, become a business-led organisation able to make quick decisions freed from the sometimes lengthy local Government decision-making mechanics.
- 3.2.3 Opportunity on transfer for one off cultural change with clear goals to develop the NPDO and its services.
- 3.2.4 Increased probity and better governance.
- 3.2.5 Community involvement and service user engagement in the management of the NPDO through membership as well as creating user groups for individual services or facilities.
- 3.2.6 Staff involvement in the direction and administration of a focused NPDO.
- 3.2.7 An NPDO running the existing facilities could contribute towards the local authority’s social and economic agenda and, most significantly, contribute towards the economic regeneration of the local area.
- 3.2.8 An NPDO could access private finance for improving and enhancing any of the facilities or services, such finance not generally being available to a local authority.
- 3.2.9 The local authority could still maintain involvement with the NPDO through grant funding and, possibly, membership of the NPDO’s board.
- 3.2.10 If the NPDO was charitable, a status not available to co-operatives generally, it would be able to obtain mandatory relief for national non-domestic rates at 80% and apply for discretionary relief for the remaining 20%. In addition, charitable NPDOs have other fiscal advantages, including exemption from corporation tax and gift aid on donations.
- 3.2.11 Opportunities to maximise efficiencies and cost savings with adoption of better business practices.

3.3 As far as drawbacks are concerned any local authority transferring services to this type of NPDO will need to bear in mind the following:

- 3.3.1 The NPDO would be independent of the local authority although the latter will have significant involvement in its management.
- 3.3.2 If the NPDO is charitable, they would be regulated by the Charity Commission, which is often seen as a positive advantage, but also irreversibility in that all charitable assets can only be passed to another charity.
- 3.3.3 There can sometimes be difficulties recruiting trustees with suitable business and other experience, bearing in mind the obligations upon them.

3.4 In the Winckworth Sherwood brochure, Trusts for Big Society, referred to above, we undertook research among a number of NPDOs enquiring as to the advantages that this status afforded including the benefits for the transferring employees.

4. What difference will the local resident and local tax payer see where services are delivered by a not-for-profit business?

The principal differences arise from the nature of the NPDO and the extent of staff involvement in both the policy making and day to day management of the business. Indeed, many of these issues arise directly or indirectly from employee involvement and participation. We highlight those which have been recorded in the research referred to above:

4.1 Creating an entity where the employees can take such a major role and, effectively, become their own boss will provide a huge incentive for them to concentrate upon the delivery of the services and, where relevant, to benefit from the financial success of the organisation. This powerful incentive will persuade the NPDO and its employees to provide services as cost-effectively as possible but without in any way compromising upon the quality of such services.

4.2 Local authorities, as political entities, inevitably have a degree of bureaucracy which can hinder quick decision making and involve senior managers in significant time servicing the organisation. Transfer of any social business to an NPDO will relieve much of this burden and provide additional capacity for managers to concentrate upon the service and create freedoms for innovation.

4.3 NPDOs will have freedom to grow outside the local authority and must take on additional public sector services or merge with other entities if they so wished. This freedom can enable the NPDO to access private finance not available to local authorities and this can only benefit the business, and all those using it.

4.4 In the Winckworth Sherwood research we were able to ascertain other significant advantages to the local resident and tax payer alike, including:

- 4.4.1 The overwhelming majority of NPDOs surveyed, had significantly increased the number of employees, principally due to the increase in business.
- 4.4.2 The enthusiasm of their staff and the change in ethos from a local authority run service to one based upon customer care and attention had, in most cases, significantly increased the income received by the NPDO and its ability to invest that additional income in improving the facilities, thus providing a spiral of improvement which for most of those NPDOs surveyed continued.
- 4.4.3 Most of the NPDOs surveyed were competing against similar private sector entities and were able to provide better value for money for residents using the facilities and, over time, were able to shake off the epithet of simply being another Council facility. Indeed the NPDO, not having profit-making as an essential requirement with no conventional shareholders, they were able to both reinvest in the facilities and charge competitive entrance fees or monthly subscriptions.

5. Differences between a co-operative council where services are supplied via npdos and other local authorities

5.1 There is an organisation sponsored by the Labour Party and promoted by the Co-operative Party entitled Co-operative Councils Network. Their membership is open to Labour-led councils, Labour groups in opposition and other organisations working towards the aims and objectives of promoting co-operative ways of delivering local services. It is assumed that all the Councils concerned with this organisation are actively supporting the transfer of services via not-for-profit businesses and thus embracing the Right to Challenge in the Localism Act 2011 and hopefully your Committee will be working upon producing good practice for all local authorities—of whatever political control—as to how they take advantage of this new opportunity. If this opportunity is taken up new NPDOs will benefit from a range of opportunities not available to services continuing to be run by local authorities.

5.2 NPDOs, which have a high degree of employee ownership or involvement, enjoy a higher productivity and profit, and have lower staff absence and turnover, because both business and employee interests are closely aligned.³³

5.3 The interests of local authority employees transferring to an NPDO can be protected, both under the terms of the Transfer of Undertakings (Protection of Employment) Regulations 2006 in that their existing terms and conditions can be enshrined on their employment by the NPDO and, furthermore, the NPDO could be an “admitted group” within the relevant local Government pension scheme. The local authority concerned could make such requirements in any transfer arrangements.

5.4 Employees not only benefit by sharing in the NPDO’s financial success but also by feeling a greater sense of pride, wellbeing and commitment in their work such that they are even more likely to be motivated to report and tackle poor practice.³⁴

5.5 The most often quoted example is that of the John Lewis Partnership whose department stores and supermarkets are all staff-owned. Research by the Employee Ownership Association has shown that companies owned by their employees are more resilient than conventionally structured companies, outperforming the market during the downturn and demonstrating a lower risk of business failure.³⁵

5.6 A report by the independent think tank, The Innovation Unit, shows how employees taking ownership of public services would yield exactly the same benefits as those seen in business, by creating the “engagement ethic” missing in today’s local authority run public services. The report says that this will not only improve their effectiveness and cost efficiency, but will also create economic benefits for local communities.³⁶

5.7 The last Government’s own research cited independent polling that indicated that two thirds of people would prefer public services to be run through the social enterprise model, while only one in 10 chose the Government.³⁷

5.8 One of the overwhelming differences between the two models is that a new NPDO could operate without the significant overhead costs imposed on all elements within a local authority and outside the inevitable bureaucracy with which any local authority is involved.

5.9 This freedom from local authority control also enables the NPDO to operate innovatively, seek opportunities elsewhere in the public and private sectors and recruit first rate managers to run their services. There are two particularly successful NPDOs, namely Fusion Lifestyle in Southwark and Mytime Active in Bromley, South London.

6. *Arrangements for delivering services by not-for-profit businesses and some of the barriers and hurdles*

6.1 This is the area upon which your Committee should perhaps concentrate in that there are a number of significant hurdles and barriers which need to be addressed and which, if not eliminated, could seriously affect the ability of NPDOs undertaking the management of public services and we outline below some of the key issues.

6.2 Much has been written about creating NPDOs and some of the barriers. In particular, the All-Party Parliamentary Group on Employee Ownership undertook an Inquiry on the issue and their report merits close review.³⁸

6.3 There are a number of tasks for any employee group contemplating taking over services for which they are responsible and a helpful publication from Co-operatives UK³⁹ suggested that the key ingredients include:

- Specialist business sport.
- Clear co-operative and mutual models.
- Participative governance of the new mutuals.
- Organisational forms that can be recognised in procurement.
- Long-term commissioning.
- Solutions for taxation constraints when moving from state to becoming a non-state mutual.
- Links to the wider co-operative and mutual business sector.
- An openness to user involvement as well as employee ownership.

³³ See “How does shared capitalism affect economic performance in the UK”. National Bureau of Economic Research August 2008; and Evaluation of tax-Advantaged All-Employee Share Schemes—HM Revenue and Customs 2008.

³⁴ See *Share Plan Survey*, London School of Economics September 2009; and Marmot, M (2004) “The Status Syndrome”, Times Books.

³⁵ Employee Ownership Association Press Release February 2010.

³⁶ The Engagement Ethic, The Innovation Unit, December 2009.

³⁷ Social Enterprise: Making a Difference, Social Enterprise Coalition/Department of Health, November 2008.

³⁸ *Sharing Ownership: The Role of Employee Ownership in Public Service Delivery*, All Party Parliamentary Group on Employee Ownership, June 2011.

³⁹ *Time to get serious: Co-operatives UK 2001*.

Our firm, Winckworth Sherwood, has produced a guide to local authorities and nascent employee co-operatives wishing to exercise the Right to Challenge under the Localism Act 2011.⁴⁰ This document sets out all the steps which need to be taken by individuals contemplating using this right, highlighting a number of key issues including:

- Advantages for staff of creating a social enterprise.
- Public services which can be run by social enterprises.
- The risks involved.
- The models and legal forms.
- How to bid to run public services with a step by step guide which is attached as an appendix to this memorandum.

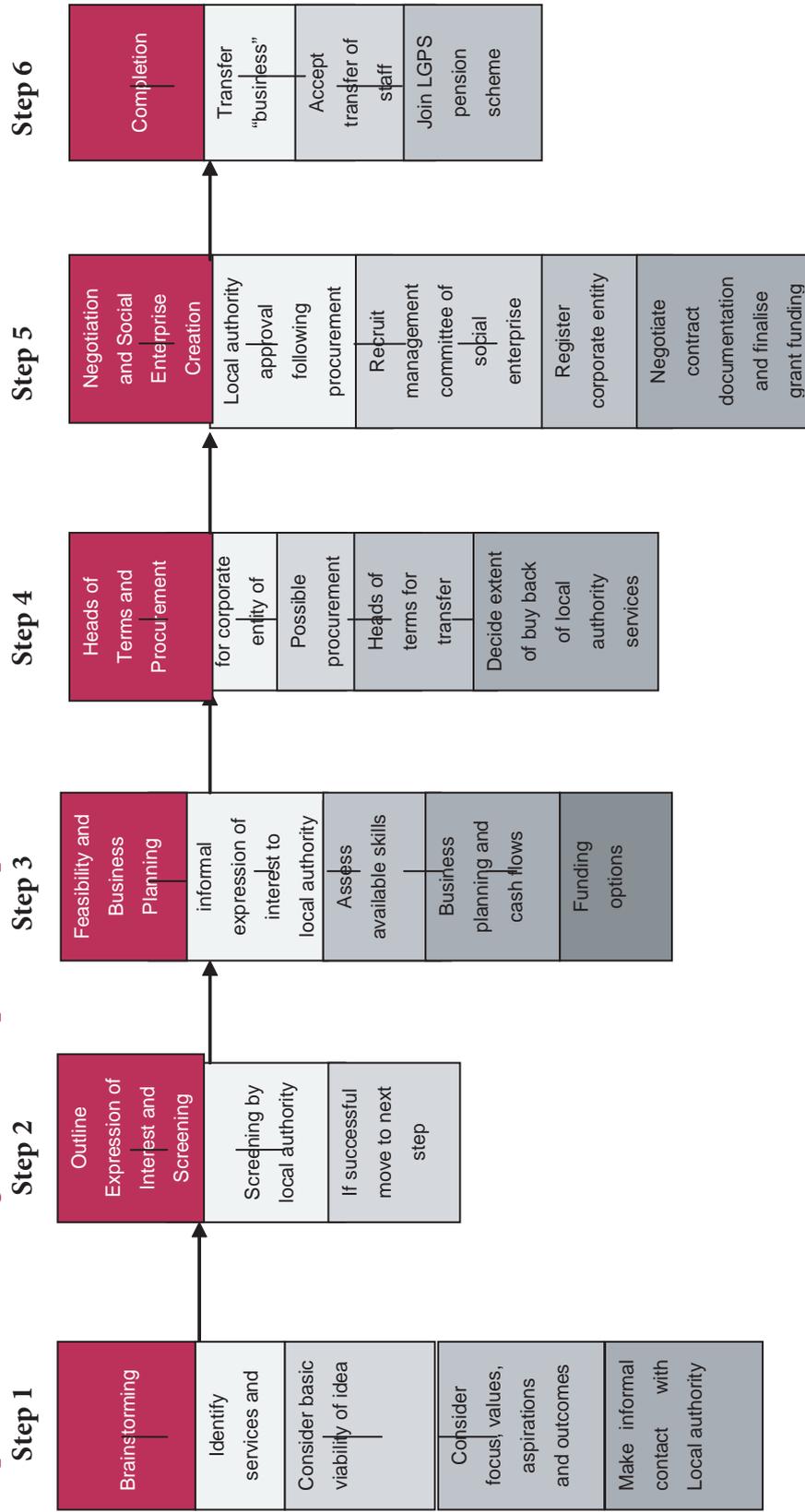
6.4 There are a number of challenges for any new NPDO or social enterprise:

- 6.4.1 *Capacity and skills*: Many new NPDOs will need to examine carefully the available skills and, if necessary, access additional skills upon the board of their NPDO.
- 6.4.2 *Finance*: Any entity will require seedcorn capital and thus the NPDO will be looking either to the local authority to provide such capital, although there is funding available from the Government to help with the initial tranche of entities created under the Right to Challenge. However, conventional bank finance or funding from Big Society Capital and other similar institutions may likewise be required.
- 6.4.3 *Procurement*: This is probably the biggest single hurdle in that under the EU Procurement regulations tendering is required and this will discourage all but the most enthusiastic prospective NPDO from bidding. The issue has been recognised by the Government in two procurement policy notes⁴¹ where the Government is urging the European Commission to permit a temporary exemption for employee-led organisations/mutuals in the new draft EC Procurement Directive currently being discussed by the European Parliament. We urge the Committee to support the Government in this respect. There are, in fact, wider considerations arising from the EC's proposals which have not, to our knowledge, been discussed at all by the UK Parliament.
- 6.4.4 *Co-operatives Bill*: The Government have announced that they are shortly to introduce a Co-operatives Bill to consolidate the extensive legislation governing co-operatives. We hope that this will not only consolidate and simplify the existing legislation but also considerably simplify the ability of individuals to create and start a new business through an NPDO as, at present, at least six separate steps are required in the UK which puts us 19th in the international league for ease of starting a new business.
- 6.4.5 *Business Rates*: Whilst charitable NPDOs are able to obtain 80% mandatory relief from their local authority, co-operatives are generally only able to obtain discretionary relief if the local authority so decides. This puts co-operatives and wholly-owned non-charitable NPDOs at a significant disadvantage such that there are a number of cases, notably the People's Supermarket in Camden, who have been charged full business rates, which inevitably has an adverse effect on the business. Consequently, co-operatives should be given a fairer deal under the business rate system and that local authorities should not be prejudiced under the new local authority finance regime.

⁴⁰ Right to Challenge: Winckworth Sherwood May 2012 (see above).

⁴¹ Procurement Policy Notes number 05/11 August 2011 and 11/11 December.

How to bid to run public services
Steps involved in creating a social enterprise to run public services



Written evidence from the Royal Borough of Greenwich

The Borough's response to the Committee's request for evidence is in two parts; the first provides the context in which the Borough's views have been formulated; the second provides our specific response to the Committee's lines of enquiry.

The Committee will be aware that Royal Borough has a long history of Cooperation. It is this historical experience of the public value that can be created by cooperatives, mutuals and related "social businesses" which informs the Borough's current understanding of this area of public policy and its innovative approach to contracting with such organisations.

Woolwich was the centre of Cooperation in London and the South East in the 19th and 20th centuries. A local tradition of working class self-help grew up during the Victorian era supported by the industry, trade and employment associated with the Royal Arsenal munitions factory. This spirit of mutual aid was given institutional form through the establishment of the Royal Arsenal Cooperative Society (RACS) in 1868. The Society was established as an Industrial and Provident Society and operated a system for the distribution of dividends based on individual member's purchases of the Society's goods and services.

Over the course of the late 19th and early 20th Century the Society developed into a general retailer, with retail stores and subsidiary enterprises throughout London and the South East. This general retail model was built on the back of the spending power of its working class subscribers and, while initially the health of the Society was linked to the munitions industry and the fortunes of the Royal Arsenal from which it drew a majority of its subscribers, expansion across London allowed the Society to become a self-sustaining entity.

As the Society grew, so did its ability to fulfil a social mission of progress and self-help. In the first decade of the 20th Century, the Society acquired 170 acres of land at Bostall Hill and Suffolk Place Estate in Abbey Wood and built over 1,000 leasehold homes with generous mortgage terms for poorer members. Once known as "Tin Check Island" after the Society's dividend system, and known locally as "The Co-op Estate", the estate has streets named after Cooperative themes and key individuals in the movement including Alexander McLeod, first secretary of the RACS. Others such as Owenite Road and Commonwealth Way similarly betray their Cooperative heritage.

In 1925 the Society purchased a 90 acre Government estate at Well Hall for £375,000 renaming it the "Progress Estate" and making home ownership a realistic prospect for its members. In addition to using its surpluses to address demand for housing, the Society was also active in education and provided the London County Council (LCC) with 26 acres at Bostall Wood to establish the first open-air school in the country, designed on a German-model to educate children with respiratory conditions. These interventions showed the Society coupled a sound business model with a strong sense of social purpose, acting as middle way between the state and the market.

The Royal Borough's historic link to Cooperation is pertinent to the inquiry because the tradition inculcated by the RACS has enabled us to view the development and contraction of cooperative models of service provision and delivery across the timeline of a century.

While the cooperative housing referred to above has moved into private ownership in one case and to a Housing Association in the other, last September saw the Royal Borough witness one of the country's first Academy Schools to be sponsored by the Coop.

Elected Members, with direct experience of Cooperation through the RACS and its role in the Borough's economic and social life, made the decision in 1993 to transfer the operation of the Council's Leisure Centres into an Industrial and Provident Society in 1993, Greenwich Leisure Limited (GLL).

In the near 20 years since, GLL has since expanded beyond the Royal Borough's boundaries and currently delivers leisure and sports development services to 17 local authorities. It has become the operator of the Crystal Palace sports complex and recently proved successful in open competition in being selected to operate the Olympic Aquatics Centre and Handball Arena after the London Olympics.

GLL is now probably the most successful social enterprise in the country. It has a Board which encompasses service users, staff and trade union representation as well as local councillor membership.

In April 2012, GLL took on the responsibility for managing the Royal Borough's Library and Information Service which is an innovative approach which will further develop experience of this model of service delivery. GLL retains close organisational links with the Borough and three Members sit on its Board as co-opted members. The Borough also commissions a wider variety of services from the voluntary and social sector.

Full details of these have been provided in the Borough's original submission to the Committee. In broad terms, the Borough's approach has been to create vehicles for delivering community services which combine the innovation and rigour of the private sector, a strong role in governance and decision-making for the community, and the accountability and progressive employment practices of the public sector.

The lessons to be drawn from over a century of Cooperation within the Royal Borough is that the sector's ability to intervene and engage in the development and delivery of services is not diminished. In some areas,

its ability to operate in these areas, arguably lasts as long as there is need which is not fulfilled elsewhere by the state or the private sector.

Our experience suggests that when these needs are met, then attention may turn to other areas where such cooperation can fill a gap. In this regard, there is a very clear distinction between the development of services and their management.

The general retail model pioneered by the RACS, which created additional social value by investing its surplus in community, is probably not replicable in a modern context.

However, there is a possibility of developing cooperative models of service delivery which can transcend the essential ethos of the public sector, where service is not compromised by profit but which also releases an entrepreneurial approach to the nature of that provision.

In our view these principles cannot be matched where an overriding objective is to reduce pay or conditions of service of employees. Rather, there needs to be the sense of opportunity for greater personal input and for the enterprise to grow.

Our successful transitions in this area have sought to protect those issues but also require two further essential requirements.

The transfer of a service into such a new arrangement must contain a contract to continue to provide the existing service for a two to three year period as a minimum in order for the enterprise to become established. Further, it must have at its core the leadership which can transcend the twin objectives of public service ethos and an entrepreneurial approach to that service.

As such, while some services can be potentially identified as being candidates for a cooperative model of service delivery in a 21st century climate, our experience suggests this cannot be delivered by rote.

Public service is fundamentally about people. Unless the leaders exist to transcend the public service and entrepreneurial ethos, no such enterprise can succeed. Similarly, the enterprise must be given a minimum of two and preferably three years to continue to provide the existing service in order to establish itself, make the psychological transition and have the space and time to release the energy and enterprise of its workforce.

It is the Royal Borough's view that a number of significant legislative, structural and cultural barriers remain which prevents the social sector from taking a greater role in the delivery of public services. There are also a number of elements to the policy debate which the Borough urges the Committee to give consideration to in its deliberations. These points are set out below:

1. The Borough is not convinced that the term "Cooperative Council" is helpful and that Committee should be mindful that some local authorities will use this term to position themselves in relation to Central Government policy, while the reality is that there may be little real innovation, member oversight, or managerial rigour to such plans.
2. The Borough's view is that the Committee should consider a broader definition within its terms of reference in order to explore this issue fully. Such a definition could encompass not just employee-ownership, but also social enterprise, mutuals, charities and trading companies.
3. In the Borough's view, it is absolutely essential that local authorities have robust clienting arrangements in place to ensure that commissioned services are appropriately managed, that performance and value for money issues are transparent, and that there is appropriate Member oversight. In our view, this should include a partnership board with LA Members represented on it, within the receiving organisation.
4. The constraints of procurement legislation and the costs involved in complex tendering processes can be a major barrier to new and small social enterprises developing their business base and operating in the market.
5. The Borough's view is that the ability of social enterprises and the charitable sector to access working capital is a major barrier, preventing local authorities procuring services from organisations which cannot demonstrate a sufficiently strong balance sheet. Small, innovative and often locally based providers are, in effect, squeezed out of public sector markets by outsourcing companies with large asset bases. A general policy presumption in favour of payment by results has, to some extent, exacerbated this problem. The difficulty which the charities and social businesses have had in winning tenders for the Work Programme is a case in point.
6. There are a number of policy directions the Committee could consider. These include, exploring ways in which social impact bonds can become a core mechanism for the funding of public services, particularly in preventative services and public health functions for which local Government is now responsible. Social impact bonds provide a mechanism for transferring risk, with appropriate rewards, to investors who can provide the working capital social enterprises need to deliver those services which they are uniquely placed to provide.
7. Government could engage with the local Government sector and social sector to develop a standard methodology for measuring and attributing a monetary value to the additional social

value generated by contractors. Such a methodology would need to have a broad acceptance across the public and commercial sectors but also avoid being so complex or expensive to evidence that social enterprises are excluded by an accounting tool designed to level the playing field.

8. The Borough's view is that the transition of local authority-run services into employee and community management can improve services, allowing innovation and increasing productivity by empowering staff and management. The Borough has extensive experience of "spinning out" business units into social enterprises and this innovative approach has preserved jobs, the terms and conditions of staff, and improved outcomes for residents. However, transition needs to be carefully considered and a strong business case must exist for the authority before proceeding.
9. The process of "spinning out" needs to be carefully managed and the Borough would like to draw the Committee's attention to the following considerations:
 - Successful transition requires individuals and management teams with the capacity to lead organisations through a complex process of transition and into a difficult initial period of operation. While this capacity may be latent within the existing local authority business unit, this cannot be assumed. Where such capacity does not exist it will need to be developed in existing staff or for individuals to be recruited from outside to lead the transition and sustain the organisation in the first years of independent operation.
 - Any new enterprise will need a robust business model, a clear understanding of current and future markets and an ability to generate additional sources of income—this will involve adjusting the new provider's service offer as necessary. Central to this is an understanding that delivering on the social mission is dependent on running a resilient business.
 - The quality of the transition process itself, from an initial options appraisal to financial forecasting and staff consultation, is an important factor in future success. The resources and time the parent organisation is prepared to devote to getting this right is a key indicator of future success.
 - Ensuring the right mix of skills and disciplines to support a business is fundamental and it can't be assumed that existing staff groups will have the necessary aptitude or motivations. The transition will liberate talented and highly motivated staff but the enterprise will need to support poor performers to develop.

May 2012

Written evidence from Shropshire Council

In line with the Government's encouragement to look at the potential of staff led/owned "spin outs" of local government services, we have been developing a managed pathway over the past few months, which is intended to provide support and guidance to staff who are considering this as an option for their service area. Within the terms of that pathway, a number of staff groups have initiated early discussions about developing social enterprises, and these have usually been led by senior managers within a service. However, even at this preliminary stage, some key lessons have emerged which we feel are worth sharing with your inquiry:

1. Approaches to such developments have to be genuinely staff led—although it is acceptable for more senior staff to initiate an enquiry, it is critical to involve the wider staff group in understanding the implications of a potential spin out at an early stage. We have learned that attempting to impose this approach on a staff team as a future direction for their service is likely to result in failure of the service.
2. Staff interest in being part of a staff led and owned enterprise tends to be in direct proportion to the size of their salary, ie staff who are part time and low paid tend to be ambivalent about the potential benefits, whereas some managers are more enthusiastic. Very few staff are prepared to consider the prospect of investing their own cash into initial share capital.
3. The central motivation for creating a new staff led and owned enterprise has to be about service excellence for the customer and not just about benefits/security for staff. Local Councillors are unlikely to respond positively to the prospect of spinning out high value services (such as care services) to a staff led enterprise where a dividend or other tangible financial benefit would be paid from the contract income to staff.
4. Most staff don't know the true costs of their service and have a poor understanding of them. Very few have the necessary commercial skills to make a success of their service. When it is pitched into the open market (this is something we are attempting to address through a core skills programme for staff and which is also addressed in an experiential way through the structured support within our spin out pathway).

5. Staff also have a poor understanding of the local market within which they will be operating and tend to have a somewhat idealised idea of the value to customers of their service and of who their competition might be.
6. Staff have little or no awareness of the contract and procurement restrictions which may prevent the council from “gifting” their service to them. There are undoubtedly tensions in this area between the intentions of the Localism Act which triggers a competitive procurement exercise, and Government initiatives such as the Right to Provide which advocate for a closed procurement approach to staff led spin outs of services. We have commissioned advice from the Office of Public Management to help us to navigate this emerging and complex area, but it is undoubtedly a potential block to government aspirations in terms of encouraging staff led and owned delivery of local services.
7. Here in Shropshire, there is also clear tension between our aim to develop the role of the voluntary and community sector and the potential for staff spinning services out of the council. The voluntary sector has been vocal in insisting that all services being considered for a staff led or owned enterprise should be opened up to a competitive procurement process. This reflects the tensions outlined at 6. above, and also present us with the difficulty of explaining to the voluntary and community sector locally that it is not possible for them to both insist on a strengthened role within the commissioning process at the same time as insisting that they are effectively treated as “preferred” local providers.

Nevertheless, despite these considerations we are continuing to work actively towards new models of working to drive through public sector reform.

We believe that staff led and owned not for profit organisations have a role to play in delivering sustainable and affordable services to the public more effectively than these can be provided within the council. We are particularly looking to create a culture of added public value in our commissioning arrangements, and it is our belief that a diverse economy of high quality provision is our best way of ensuring that this happens.

May 2012

Written evidence from the Department for Communities and Local Government

SUMMARY

- The Government is committed to decentralising power to communities and neighbourhoods. The Localism Act and abolition of bureaucratic target and inspection regimes allows Local Government more freedom to act in the interests of their communities.
- The co-operative model is one of a number of different approaches which local Government is taking to respond to the challenges facing the sector. This involves running the council using the principles of the co-operative movement. This might include opening service delivery to not-for-profit organisations and encouraging employees to establish mutuals to run services.
- Local Government spends £62 billion annually on third party payments. There is significant scope for major savings in local authority procurement, to save taxpayers’ money, pay off the deficit and to commission better frontline services.
- The Open Public Services White Paper sets out the Government’s commitment to open up public services and procure a greater proportion of services from the Voluntary and Community Sector and Small and Medium Enterprises.
- The Government welcomes the committee’s interest in innovative models for transforming local Government such as the co-operative council.

INTRODUCTION

1. Decentralisation of power and decision making is at the heart of the Government’s agenda. The Department is responsible for driving decentralisation across Government and is committed to pushing power to the lowest practical level—be that a local authority, a neighbourhood council or a community.

2. The Localism Act sets out a series of measures to achieve a substantial and lasting shift in power away from central Government and towards local people. They include: new freedoms and flexibilities for local Government; new rights and powers for community and individuals; reform to make the planning system more democratic and more effective, and reform to ensure that decisions about housing are taken locally.

3. The Localism Act and Local Government Finance Bill, along with changes we have made to remove ring-fences on Local Government grants and dismantling of the National Indicator Set, give councils much greater freedom and flexibility to act in the interests of their residents and to develop new ways of discharging their functions. We want local Government to be a visible leader of their communities, listening to local concerns, supporting local action and holding others to account on behalf of local communities.

4. The general power of competence is now in place for all English local authorities, including eligible parish councils. Councils can innovate and legally do anything an individual could do unless specifically prohibited by law. This gives councils more freedom to work together act creatively and innovatively to improve services, drive down costs and enhance their local area.

THE CHANGING ROLE OF LOCAL GOVERNMENT

5. Over a number of years, the perception of the role of councils has moved towards that of a service provider as they have been required to deliver an increasing number of “one size fits all” services and to shoulder a growing burden of compliance. By returning autonomy to local Government, we are giving them the freedom to focus on representing the wishes of their communities and providing leadership in their area. It is for individual local authorities to decide how they exercise this freedom and Government is not dictating a specific model.

6. These freedoms give councils greater scope to respond to the challenges presented reductions to their spending power, the greater cost of providing social care in the future and the opportunities that come from the devolution of the public health budget to local Government from 2013.

7. Progressive councils across the country are already revolutionising the way they operate, by giving councillors and communities more control over budgets and commissioning or encouraging small businesses, charities and social enterprises to bid for contracts. These approaches to running councils are becoming more common as local Government addresses the challenges of rising social care costs, the need to cut the nation’s deficit but also the need to engage with communities and increase trust and confidence in public services and local democracy.

8. Many councils are empowering their ward councillors to discharge their core role—as representatives of their electorate. The freedoms we have introduced on Governance, such as allowing councils to return to the committee system and clarification of the pre-determination rules are designed to allow local Government to act to revitalise local democracy in this way.

9. One model which has been taken up in the last two years is that of the co-operative council—running a council along the lines of a co-operative or mutual society. As with other progressive models, the co-operative model places emphasis on empowering residents and reduces the role of the council as the provider of first resort.

10. The 17 local authorities and opposition groups who have adopted the co-operative council model have taken a variety of approaches to achieve this, including passing ownership and responsibility for assets to communities; creating employee led mutuals to run services and establishing council services at neighbourhood level, with a view to involving communities more closely in their work. Oldham Council is encouraging staff to spend three days a year volunteering in the borough to lend their skills to local groups.

11. The Committee’s call for evidence asks for views on the benefits of commissioning services from not-for-profit organisations such as co-operatives or mutuals. Whilst this is obviously an approach that councils following the co-operative model may choose to take, it would be one part of a wider change in their philosophy and business plan.

12. Other authorities are transforming their services along different lines. For instance Selby District Council intends to de-couple the council’s core democratic decision making function from the physical provision of services by transferring the majority of its staff to a new “service delivery vehicle” called “Access Selby” with the aim of reducing the overall budget. Access Selby is not currently a separate legal entity, and its officers are still council employees, but it could potentially become a mutual, a business (either privately owned or partially or wholly owned by the council), or some other form of joint enterprise. The intention is that eventually around 70% of the staff previously employed by the council will work for Access Selby.

LOCAL GOVERNMENT PROCUREMENT

13. Some councils are keen to improve the way goods and services are commissioned and harnessed their buying power to secure better deals to help drive down costs, encourage innovation and support local businesses. Local Government’s own Productivity Programme also shows there is more that can be done to address this area and identify savings.

14. The Open Public Services White Paper sets out our principles for reforming public services, including making services open to a range of providers from different sectors and of different sizes, including—but not limited to—co-operatives and mutuals.

15. The Government is actively looking at ways to tackle red tape, simplify European Union legislation, and open up its contracts, tenders and procurement opportunities up to smaller firms and the voluntary sector by using of Contract Finder.

16. The Localism Act introduced a new Community Right to Challenge to open up local Government commissioning further—particularly to local communities. The Right allows community groups and parish councils to submit an expression of interest in running a local authority service. A successful expression of interest will result in the local authority running a procurement exercise, in which the community group can participate.

17. The Right will hand the initiative to groups with good ideas about how services can be run differently or better, ensure their ideas get a fair hearing and that they get the time they need to prepare effective bids to

run services. Local authorities must consider how any expression of interest and subsequent procurement exercise will improve the social, environmental and economic wellbeing of the area.

18. A group of two or more local authority employees can submit an expression of interest in running a service. We expect employees to form an employee-led structure to take on running services under the Right.

19. The Government has removed the bureaucratic pre-procurement form—the Pre-Qualification Questionnaire—for deals below £100,000 which can discourage small business or the voluntary sector from bidding. Council suppliers also regularly complain about this onerous form.

20. The Secretary of State for Communities has written to the Local Government Association to ask them to press their members to reduce the red tape burden and to encourage more councils to also drop the form, share completed forms or use the simple version produced by Government for big tenders.

21. There is more that councils can do:

- embrace transparency on spending, tenders, contracts and property assets, required by the Data Transparency Code to identify savings;
- tackle procurement fraud, estimated by the National Fraud Authority to cost local Government £855 million a year;
- use the new general power of competence in the Localism Act to remove legal barriers to greater innovation and partnership working;
- eliminate duplicate spending: research by Experian estimated councils could be losing significant sums every year in duplicate payments;
- introduce new checks and balances on procurement and corporate credit card use, as recommended by Sir Philip Green's efficiency report;
- commission services better so they support local business, the high street and voluntary sector. Many councils still gold plate European Procurement Guidance;
- increase joint working and bulk buying, including the sharing of back office services and senior staff; and
- use electronic auctions, reducing multiple suppliers, negotiating hard on contracts and promoting competition between suppliers.

EMPOWERING COMMUNITIES

22. Ten Neighbourhood Community Budget pilot areas were announced alongside four Whole Place Community Budgets pilots on 21 December 2011. These comprise the second phase of the Local Government Resource Review which aims to push greater financial autonomy out to communities and citizens.

23. The 10 pilot areas are as follows:

- Newcastle (Cowgate, Kenton Bar, Montague)—local authority lead;
- Hammersmith & Fulham (White City)—local authority lead;
- Birmingham (Castle Vale, Shard End, Balsall Heath)—a joint local authority, Registered Social Landlord package covering three neighbourhoods;
- Kingston-upon-Thames (Norbiton)—local authority lead;
- Tower Hamlets (Poplar Harca)—Registered Social Landlord lead;
- Westminster (Queens Park)—Voluntary and Community Sector lead;
- Ilfracombe Town Council—parish council lead;
- Bradford Trident (five small neighbourhoods)—Voluntary and Community Sector lead;
- Tunbridge Wells (Sherwood)—district council lead; and
- Haverhill Town Council—led by “One Haverhill” partnership.

24. In Norbiton, the Council is working with residents, service providers and central Government to explore alternative ways to design and deliver services to address the priorities identified by the community as part of their Local Integrated Services work covering housing, community safety, public realm, worklessness and youth activities. The ultimate aim is to pool partner budgets in line with all community priorities and to devolve more power and influence to the very local level.

25. The NCB activity fits very well with Kingston's approach to commissioning, which is to ensure that the right service is in place, with the right provider, to meet the community need. The Council does not assume that it should be the default provider and has for some time been working with the local voluntary and community and business sectors to build their capacity.

26. The pilots will work out in practice how neighbourhoods can take more control over local public services. We have no blueprint and we expect different approaches to develop, reflecting local characteristics and issues. Each area will develop an operational plan that is ready to go live from April 2013. This will need to define

the package of local services, the funds and other resources that comprise the budget, and accountability arrangements.

27. Learning and evaluation will be key features of this work, and we discussed our initial ideas with the pilot areas at the Neighbourhood Community Budget launch event on 2 February. We want the pilots to act as catalysts for the adoption of Neighbourhood Community Budgets more widely, and to establish a platform for demonstrating the effectiveness and efficiency of neighbourhood-based approaches—getting better services for less. The Treasury and other key departments support this work.

CONCLUSION

28. Public Services need to innovate in order to meet the challenges of the 21st century. The co-operative council approach seeks to give power to communities and to encourage closer partnership between individuals and their local authority.

29. The Government is keen to encourage such approaches and welcomes the committee's focus on the co-operative council.

June 2012

Supplementary written evidence from the Department for Communities and Local Government

It was a pleasure to appear before your committee recently as part of the inquiry you are holding on co-operative councils and the scope for co-operatives and mutuals to play a greater role in service delivery.

I spoke a little about the support that my department has put in place to support the new powers for communities introduced in the Localism Act and the level of enquiries we have received to date and wanted to provide you with updated figures for both.

The support service for the Community Right to Challenge had received 584 enquiries up to the end of August—the figure of 400 which I quoted was the most recent figure we had at the time, which referred to calls to the end of July. Additionally, the Community Ownership and Management of Assets Programme, which supports groups with an interest in taking over land and buildings through the Community Right to Bid or through asset transfer from a local authority has received 404 enquiries as of the 24 August. I think this demonstrates that there is significant appetite within communities to take up this agenda and we hope to support many of them to do so.

During my evidence I referred to Expressions of Interest from groups in relation to enquiries to the advice service. The term Expression of Interest is also the term used in the localism Act and related guidance to refer to a formal written proposal to a local authority under the Right to Challenge from a group interested in running a service. I was not referring to these formal written proposals, but rather to enquiries from interested parties to our support line. We do not require Local Authorities to notify us of Expressions of Interest and, whilst we are following developments on the Community Rights, we are not maintaining a central record of these.

Thank you once again for the opportunity to talk about this agenda. I look forward to talking about Localism and Community rights in more detail in the future.

October 2012

Written evidence from UNITE the Union

This evidence is submitted by Unite the Union. Unite is the UK's largest trade union with over 1.5 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and health services.

INTRODUCTION AND EXECUTIVE SUMMARY

In local government Unite represent members working in a wide range of settings delivering services such as schools, waste and recycling, social care, repair and maintenance services.

- Unite believe that the context in which this inquiry into the “Co-operative Council” is taking place needs to be set—it is a context comprised principally of the straitened financial circumstances local authorities are faced with and the Government's overall agenda of privatisation.
- The introduction of the “Right to Challenge” may lead to the creation of a competitive business market in which organisations such as co-operatives have the “right” to compete head to head with large and multi-national private companies such as Serco, Capita, Veolia and many others. As such, it is difficult to disentangle the real prospects for a “co-operative council” from the wider agenda of privatisation.

- Unite has always been clear; community, voluntary and not-for-profit organisations have an important role to play in supporting the delivery of high quality public services, but as an additional resource not a replacement for high quality public services.
- The competitive market model of contract and funding awards that this Government wishes to further embed in the Not-for-Profit sector has seen a race to the bottom in pay, terms and conditions for those working in the community, voluntary and not-for-profit sector.
- Unite has previously argued against the outsourcing and privatisation of services on the grounds of; cost and risk, a decline in the quality of services; threats to the continuity of service; reduced accountability and reduced flexibility of service.
- A low paid, overworked and poorly treated workforce cannot deliver a high-quality public service. Unite is deeply concerned that decent pay, as opposed to poverty pay, collective bargaining, fair pensions and other positive terms and conditions are painted by some as a “burden” or a “barrier” to better public services. They are not—they are a prerequisite as part of an overall investment in services and the people who work to deliver them. Unite supports the continuation of national collective pay bargaining, access to a national, decent pension scheme and good terms and conditions for the local government workforce, no matter what the model of service delivery.

1. *Local government spending cuts and the privatisation agenda*

1.1 Unite believe that the context in which this inquiry into the “Co-operative Council” is taking place needs to be set. That context is comprised principally of the straitened financial circumstances local authorities are faced with and the Government’s overall agenda of privatisation.

1.2 The financial settlement for local government settlement is extremely tough with councils forced to find 28% of savings at a time of high inflation. Overall in the economy there are public spending cuts that the Institute for Fiscal Studies have assessed as being unprecedented in scale, with the overwhelming majority of planned cuts still to take place. The social and economic consequences of these spending cuts lead to further burdens being placed on local government services—for example, through growing local unemployment, growing local homelessness, failing local high streets and so on.

1.3 The local government workforce are experiencing an unparalleled attack on their terms and conditions at a local level; unsocial hours payments, overtime and weekend rates, car allowances and mileage payments being withdrawn or cut. There are also experiences of cuts to sick pay and the introduction of unpaid annual leave.⁴²

1.4 Cabinet Office Minister Francis Maude argued in February 2011 that “*There are six million people who work in the public sector at the moment. It would be very ambitious, but is not inconceivable, that at the end of the Parliament, 2015, you might have as many as one million workers who would be co-owners in some form of the public service entity that they’re part of*”. This was followed in July 2011 by the Government publishing their “Open Public Services” White Paper which details how they intend to implement this agenda. The default position of this Government is that public organisations will not in the future directly provide services themselves, rather they will contract others to provide public services.

2. *Right to Challenge*

2.1 In local government the implementation of this outsourcing and contracting agenda will fall to those councils who are ideologically minded to divest themselves of services and driven forward elsewhere by the “Right to Challenge” introduced under the Localism Act. Where a “Challenge” is accepted by a local authority it will trigger a full procurement process.

2.2 Unite believes the cumulative impact across local government in England of the “Right to Challenge” will be one of mass privatisation, and indeed that is the Government’s clear goal across public services. It is therefore with this in mind that we turn our attention to the slippery concept of the “Co-operative Council”. It appears from the terms of reference for this inquiry that the view Select Committee is that a “Co-operative Council” is a council which does not provide any services directly, and instead provides all its services through not-for-profit organisations.

3. *Co-operatives or private companies as the beneficiaries?*

3.1 Unite believe an attempt is being made by the Government to use the language of local, community and empowering organisations as a political tactic to disguise the real agenda—the privatisation and breaking up of our public services, and the winning of contracts by private companies. As highlighted above, the “Right to Challenge”, if accepted by a local authority, will trigger a full procurement process. In short, despite the warm words of the Government, there are no exceptions for small, local, specialist organisations—a competitive business market is being created in which such organisations have the “right” to compete head to head with large and multi-national private companies such as Serco, Capita, Veolia and many others.

⁴² See the NJC 2012–13 Pay Claim from Unison, Unite and GMB for more details.

3.2 The privatisation or outsourcing agenda is one that will overwhelmingly benefit the private sector. The outsourcing business market in the UK is worth approximately £80 billion and in the Unite report, “The Shrinking State”, just a few of the examples of lobbying by the private sector to increase the use of outsourcing are given. It is worth highlighting at this point the Work Programme from the Department of Work and Pensions, frequently mentioned as an early and positive example of the “Big Society”. But as the TUC noted last year, “Of the 18 preferred bidders for 40 prime contracts, the voluntary sector was awarded two. The public sector got one. Fifteen went to the private sector, including SERCO, A4E and G4S. It is worth also noting that the two voluntary sector consortia that won bids were effectively voluntary/private partnerships, with Careers Development Group bidding with multi-national employment and training provider MAXIMUS and Rehab partnering up with Interserve, described as “one of the world’s foremost support services and construction companies”.⁴³ Obviously since then A4E have been embroiled in a series of scandals around contract payments and use of public money that led to their Chair and founder, Emma Harrison, being forced to stand down.

4. Impact upon the not-for-profit sector of Government actions

4.1 There are no “real-life” examples of a “Co-operative Council” as indicated by the terms of reference⁴⁴ and as the Association of Public Service Excellence recently found through a systematic review in partnership with De Montford University, “[there is] a lack of evidence informing the claims that are being made about the benefits of co-ops and mutuals”.⁴⁵ This prompts them to ask the question “Are local authorities walking into a major change in the way in which public services are delivered without any evidence to support its effectiveness?”

4.2 It is also worth revisiting the reasons why local government arose historically in the first place—because there was a need for an overall provider of local services to meet the needs of local communities; an organisation that could look across all the needs of that local community and direct resources accordingly. If a local community does not like how resources are being allocated they can vote to change the values their local council is operating to. Stepping towards a model of local government where services are contracted out—no matter who to—is stepping away from a model where services are integrated, resources can be moved between services to meet changing local demands and where all members of the local population have the right to change the direction of their local services by changing who governs those local services.

4.3 We are left therefore to draw on the experiences that Unite have had in this area, and it is necessary to point out to the Committee that Unite is not opposed to social enterprises, mutuals and co-operatives *per se*, and indeed the trade union movement has a history of supporting mutuals and co-operatives and Unite itself has a large membership in the Community, Voluntary and Not-for-Profit sectors. But Unite has always been clear; community, voluntary and not-for-profit organisations have an important role to play in supporting the delivery of high quality public services, but as an additional resource not a replacement for high quality public services. And we do not support the invoking of such organisations to be used as a fig leaf for the real agenda of outsourcing to create larger profits for private companies.

4.4 The competitive market model of contract and funding awards that this Government wishes to further embed in the Not-for-Profit sector has seen a race to the bottom in pay, terms and conditions for those working in the community, voluntary and not-for-profit sector. Experiences in the Community, Youth Workers and Not-for-Profit sector have raised significant concerns about the “contract culture”; where an organisation’s income becomes dependent on winning and delivering government and public sector contracts. The sector is facing significant cuts as a direct consequence of the overall public spending cuts being made by this Government.⁴⁶

5. The case for outsourcing?

5.1 The economic case for outsourcing services on the grounds of efficiency has not yet been proven, nor has it been proven that an outsourced service would be of a higher quality or of a lower cost. Across the public sector the empirical evidence over many years does not show that the private sector is more efficient,⁴⁷ and even the IMF admits that “the evidence is mixed”.⁴⁸ There is evidence to demonstrate that in the long-run organisations which outsource have lower productivity than those which do not outsource.⁴⁹

⁴³ The Big Society Market—who are the winners? 18 April 2011, <http://touchstoneblog.org.uk/2011/04/the-big-society-market-who-are-the-winners/>

⁴⁴ CLG Committee Inquiry and Call for evidence, “a co-operative council where services are supplied via not-for-profit businesses ...” <http://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/news/co-op-council—tor/>

⁴⁵ Proof of delivery? A review of the role of co-operatives and mutuals in local public service provision, APSE, May 2012.

⁴⁶ Please see the Unite campaign website in support of organisations in the Community and Not-for-Profit sector, Unite for our Society <http://www.uniteforoursociety.org/>

⁴⁷ Willner J and Parker D, *The Performance of Public and Private Enterprise under Conditions of Active and Passive Ownership and Competition and Monopoly*, *Journal of Economics*, Volume 90, Number 3, April 2007. See also Petersen, Ulf Hjelmar, Karsten Vranbaek and Lisa la Cour, *Effects of Contracting out Public Sector Tasks—a research based review of Danish and International Studies from 2000–2011*, September 2011, AKF, Copenhagen

⁴⁸ IMF Public-Private Partnerships, 12 March 2004, see <http://www.imf.org/external/np/fad/2004/pifp/eng/031294.htm>, paragraph 25

⁴⁹ Windrum, Reinstaller and Bull, *The outsourcing productivity paradox: total outsourcing, organisational innovation and long run productivity growth*, *Journal of Evolutionary Economics*, 2009.

5.2 Unite has previously argued against the outsourcing and privatisation on the grounds of; cost and risk, a decline in the quality of services; threats to the continuity of service; reduced accountability and reduced flexibility of service. It is relevant to look at these arguments because not only do some of these effects of outsourcing arise because of the incentives and behaviours that a competitive contracting model create, but as highlighted above, the steps put in place to create a “co-operative council” by the Government also bring the likelihood of contracts being awarded to profiteering companies.

5.3 Firstly, there is a cost associated with “administering the market”. This could include, though is not confined to, the initial tendering process, contracting and legal fees, the cost of monitoring the contract performance, invoicing and any legal wrangling. These are costs which previously could have been invested in services. There is also the potential cost of “bailing out” a service provider that for whatever reason can no longer deliver the service, for example if an organisation goes bust. The risk remains with the contracting public authority—as recently demonstrated by the bankruptcy of Southern Cross social care and housing maintenance firms Connaught and Kinetics. The local council(s) have to step in.

5.4 Secondly, a deterioration in services. The whole system of competitive contracting is built on a foundation of separate, competing business units that do not work together, lest they give someone else a competitive advantage and lose future income as a result. This can result in best practice not being shared amongst organisations operating in the same field. Also in the case of what we may see arise in local government, as discreet service units are contracted to different organisations there is a risk of silos being deeply entrenched between services where local people would benefit from co-operation and integration between them.

5.5 As mentioned above in relation to the Unite experience in the Community and Not-for-Profit sector, the competitive contracting culture brings with it an incentive to cut costs to the bone. This can lead to cuts in staff pay, terms and conditions. A low paid, overworked and poorly treated workforce cannot deliver a high-quality public service. Unite is deeply concerned that decent pay, as opposed to poverty pay, collective bargaining, fair pensions and other positive terms and conditions are painted by some as a “burden” or a “barrier” to better public services. They are not—they are a prerequisite as part of an overall investment in services and the people who work to deliver them. Unite supports the continuation of national collective pay bargaining, access to a national, decent pension scheme and good terms and conditions for the local government workforce, no matter what the model of service delivery.

5.6 Thirdly, the risks to continuity of service when services are outsourced overlap heavily with the above points. As Unite’s report on the outsourcing of public services found, “provision of services in the private sector is associated with a greater incidence of short term job tenure, and of long-hours working practices, than either the public sector or the voluntary sector”.⁵⁰ This high churn of staff represents a lack of continuity and a loss of knowledge build up for an organisation that will affect the quality of services that the public receive. Further, as each contract ends and is up for re-tender there is a risk of the chop and change of the provider themselves as well the disruption and distress that bankruptcy of a service provider can bring.

5.7 The lack of flexibility and accountability that can arise from the contracting of a service rather than provide it “in-house” has been touched on above. When a council has to respond to changing local service needs and demands, or wants to design a service to meet wider social needs it can do so a great deal easier and with less overall cost if that service is in-house rather than the council entering into contract renegotiations. For example, local services can be designed to boost local employment, provide apprenticeships, be environmentally sustainable and so on. Importantly, a local population can vote that services should be designed to meet overarching local needs, or change the future direction of local services all together and elect the people that govern those services, correct problems and address grievances.

5.8 A challenge for local councillors where services are contracted out—again no matter who to—is that local people are likely to still approach their councillors if they have a problem with a local service, and expect that councillor to be able to address their issue. Accountability for local services cannot just nominally remain with a local council, it has to be real and be able to be acted upon. There is an interesting point to be made here that although co-operatives can have vibrant, dynamic, internal democracy which is positive and should be supported, when delivering local services that internal democracy would not be open to all local citizenry as local council elections are now. An organisation’s democracy is open to members of that organisation only—it is an important distinction to be made when we are discussing accountability over local services.

6. CONCLUSION

6.1 Unite believes that the Government is embarking on a dangerous experiment with local services—the level of spending cuts being demanded of authorities are severe and are having detrimental consequences for local services and the people who deliver those services. At the same time, it is pushing local councils to divest themselves of these services, despite no evidence base for the value, quality or benefits of this course of action.

May 2012

⁵⁰ The Shrinking State—why the rush to outsource threatens our public services, Howard Reed, March 2011 <http://www.dontbreakbritain.org/pdf/TheShrinkingState.pdf>

Written evidence from West Midlands Councils

This submission is presented by West Midlands Councils. It follows discussion at an informal event on 1 May 2012 co-hosted by West Midlands Councils and Ecorys, with specialist input from Primetimers and Russel-Cooke Solicitors. The event was attended by a small number of elected members and senior officers from councils in the West Midlands.

Below we have provided a short set of bullet points, which reflect the discussion we had and which we hope will assist the Select Committee as it considers the setting-up and operation of not-for-profit businesses to provide local services that local authorities traditionally provide:

- For many employees in local government the prospect of being part of a new mutual organisation is potentially exciting.
- But for a much greater number it is a frightening prospect and not one which is preferred over the perceived “safety” of being directly employed by the Council.
- This maybe because the concept of mutuals and co-ops as alternative employing bodies or service providers is not understood. There is little awareness of the benefits or opportunities offered or of the development of a mutual in preference to a TUPE transfer to another provider.
- Part of raising awareness could include each Council or a group of Councils developing a strategy for mutualisation. Such a strategy would include a robust communications plan and encourage managers and staff to think through the opportunities across all services.
- The motivation for setting up the mutual is also key, such as the push from the Council or pull from the employees? The short-term or long-term thinking? The community drive for social enterprise and the drive to make money or preserve jobs/services?
- Due consideration should be given to the additional value that mutualisation could bring over and above what could be achieved by improvement and efficiency activities.
- When developing a mutual, due account must be taken of the objectives all concerned including the sponsor, the staff, the public, the service users and key stakeholders.
- All involved need to understand and share the values which will be core to the business/service.
- The motivation, objectives and values need to sit alongside a clear and tested business case.
- Councils should commission services from mutuals for a minimum of five years to allow the organisation to develop, be viable and competitive and to provide a “safety net” to encourage staff participation.
- There are a range of legal structures which lend themselves to mutuals; all options should be considered before the preferred option is taken. When weighing up the options consideration should also be given as to how “profit” is handled—reinvested, banked, distributed to employees etc.
- Each Council as a commissioning body must retain expertise in house to ensure that the right services are commissioned, at the right price. If that expertise is lost the Council is in danger of being over reliant on the service provider for the cost setting and service level of the contract.
- Consideration must be given to the impact that other regulatory activity may have on the mutualised service eg the Care Quality Commission or Ofsted.
- There are recognisable tensions on the part of commissioners—do they procure purely on a cost basis or to support the recently established mutual? Unit cost and quality are key but not easy to balance.
- Those gathered recognised that there are hidden costs to Councils of supporting fledgling mutuals. With Council officer time taken to ensure that the service required are delivered, rather than the services the mutual has always provided when staff were previously part of the Council.

May 2012

Written evidence from UNISON

The Committee invites submissions from interested parties on the setting-up and operation of not-for-profit businesses owned and controlled, in full or part, by the people who work for them to provide local services that local authorities traditionally provide.

1. UNISON welcomes the opportunity to submit evidence to the Communities and Local Government Select Committee Inquiry into cooperative councils. UNISON is the largest trade union in the UK, representing over 1.3 million public service workers employed in the public, private, voluntary and charitable sectors. It is also the largest trade union in the local government representing workers delivering public services across the wide range of local authority functions.

What is the difference between a co-operative council where services are supplied via not-for-profit businesses and other local authorities?

2. UNISON is supportive of public service reform which gives a greater voice to both the workforce and service users. However we have signalled alarm at the prospect of the fragmentation of public services heralded by the Open Public Services White Paper and provisions in the Localism Act, including the community right to challenge. It is through mechanisms such as these that we believe the risk of large private sector companies taking over large swathes of the public sector infrastructure looms large.

3. UNISON's concern at the prospect of further privatisation is not an ideological one. We believe that in-house service delivery maximises the opportunity for making the best possible use of taxpayers' money and providing the most efficient, high quality services which are locally accountable. Further fragmentation will impede the potential for joined-up services across sectors. More importantly, we are convinced that there is very scant evidence indeed of privatisation leading to service improvement. Indeed, there is clear evidence to the contrary in the area of social care, which is beset with problems—both in the quality of care provided and poor pay and conditions.

4. The outcomes of outsourcing to private and voluntary sector bodies are generally reduced pay, conditions and pensions for staff, poor monitoring and quality control by councils and reduced accountability to service users and local Council Tax Payers. Furthermore, there is a loss of value of public money through huge procurement costs, the shareholder premium, poorly defined contracts and large increases in salaries to senior managers and Chief Executives. The National Audit Office and the Audit Commission have both produced evidence of high-cost fraud and leakage of public money through imprecise and/or inflexible contracts and over-charging.

5. The timing of the Select Committee inquiry presumably reflects the interest in coops and mutuals within the Coalition government which was first heralded by the Cabinet Office Minister Francis Maude back in 2011, but has yet to “roll out” in earnest anywhere. Whilst there has been much rhetoric about the cooperative council, it is the view of UNISON that there are no clear examples of this as either a model or an approach on which we can draw any reliable evidence from about the benefits, or otherwise. Furthermore we are not convinced of the case for the establishment of separate service delivery models—be they employee led mutuals or local authority trading companies—to deliver services which are already delivered in-house.

6. In this context there are three clear models of local authority which should be referenced. Those which seek to roll back the local state and reduce the role of the local authority to that of a mere commissioner of services from private companies (such as LB Barnet and Selby), those councils which continue to provide their services in-house by a directly employed workforce, and then the relatively new and untested concept of the “cooperative council”.

7. UNISON's preferred option for services to be delivered in-house by a directly employed workforce enables the council to retain full democratic control and accountability, enabling greater flexibility to ensure quality services which represent value for money for the taxpayer. Although the boundaries of this inquiry are concerned with delivery models that sit separately from the local authority, UNISON would argue that a cooperative council can—and should—apply cooperative principles to in-house services. “Cooperative council” should not be solely defined by having outsourced service provision.

8. Those local authorities which have positioned themselves as “enabling” or “commissioning” councils demonstrate to UNISON the dangers of adopting a position which effectively relegates the role of the council to that of contract monitor. When services are handed over wholesale to private companies whose primary purpose is to create profit for shareholders, democratic accountability is inevitably compromised. Even in cases where the council enters into a joint venture with a private contractor within a separate company with council seats on the board, members are required to act in the interests of the company, rather than the local authority.

9. It is unclear whether this inquiry is making explicit reference to the Cooperative Councils Network, which was established in 2011 as a Cooperative Party and Labour Party response to the Coalition government's drive to fragment the public sector through encouraging a diversity of providers. A growing number of Labour councils and Labour groups in opposition have now signed up to the Network, whose terms of reference state its aim is to “develop and promote co-operative ways of delivering local services.”⁵¹ There are a number of high profile local authorities undertaking work under the banner of the Network, including Lambeth, which was one of the first to signal its intention to become a “cooperative council”. However in practice, we are yet to see evidence that the concept of the cooperative council is anything other than rhetoric, however well-intentioned.

10. UNISON recently convened a meeting of our branches who are in Labour-controlled local authorities who have signed up to the Network. The feedback received on progress within those authorities varied enormously and it is clear that in many cases councils are simply keeping a watching brief over many of the ideas surrounding the concept of the cooperative council, without instituting any programme of major reform. For those who have more publicly voiced their ideas on becoming a cooperative council, feedback suggests that many of the broad policy ideas have yet to translate to actual changes to ways of working, not least because of the complexities involved in establishing new models of service delivery.

⁵¹ Cooperative Councils Network—terms of reference: <http://www.councils.coop/terms-of-reference/>

11. Crucially, reports from UNISON branches suggest that the move to more cooperative ways of working is generally instituted by council leaders, with senior officers tasked with implementation, and with little or no involvement of the workforce or those who use services. We believe that attempting to undertake sweeping changes to the way services are designed and delivered without the input of staff and service users is a fatal error, and one that runs contrary to many of the principles of cooperative ways of working. In light of this, employee-led mutuals and not-for-profit “spin outs” begin to appear more as management buy-outs than a spontaneous expression of latent entrepreneurial spirit being unleashed in the public sector.

What arrangements need to be put in place to deliver services by not-for-profit businesses such as employee-owned mutuals? More specifically, what are the barriers to establishing not-for-profit businesses to supply services; what role does the local authority have in promoting and incubating a not-for-profit business; and where does accountability lie?

12. UNISON’s major concern is that local authorities are being hastily encouraged to look towards alternative delivery models such as employee-led mutuals on the basis that they will enable them to make cuts with a more acceptable face whilst appearing to preserve front line services. UNISON believes that alternative delivery models are not a panacea for cuts and in reality, significant savings would only be achieved through the denigration of workforce terms and conditions and/or the creation of a two-tier workforce. Moreover the costs associated with setting up an alternative delivery vehicle (such as an employee-led mutual) are not insubstantial and would need to be weighed against the alternative of continuing to provide the service in-house and instituting a programme of service reform led by the workforce and including meaningful service user involvement.

13. UNISON would wish to note here the experience of the Greater London Council under the leadership of Ken Livingstone. Co-operative Development Agencies were set up in many London boroughs, with resources and experienced staff to help local people establish co-operatives. The experience of that laudable experiment were:

- Establishing genuine co-operatives takes time, commitment, technical expertise and ongoing support.
- The impetus needs to come from those who are going to run the co-operative, not from external sources as the commitment required to sustain a co-operative venture is significant.
- Few co-ops established during that period have survived in any form, despite significant ongoing support.

14. Much of the thrust of the inquiry into the cooperative council model is towards alternative forms of delivery with the focus solely on forms of ownership. UNISON believes that this approach misses the huge opportunities that there are for councils to explore new ways of working through greater cooperation with both staff and service users. Many claims have been made about the supposed benefits of mutuals in the drive to promote their involvement in public service provision. Francis Maude has claimed that they “reduce absenteeism, improve performance management, encourage innovation, and increase productivity”.⁵² However there is a paucity of evidence to support such bold claims.

15. UNISON experience of supporting branches whose local authorities are seeking to move to mutual models demonstrates that there are many barriers to establishing such service delivery vehicles. Local authorities who view “spinning out” services as a quick fix cost-cutting exercise are likely to be proven wrong. Recent research by the Association for Public Service Excellence (APSE)⁵³ argued that three elements need to be in place to ensure that mutuals and coops have any chance of long term sustainability:

- A contract length of five years or longer, which also locks in previous benefits such as adequate training provision and decent staff terms and conditions.
- Buy-in from key stakeholders including staff, citizens and elected members.
- Ongoing support, advocacy and expert advice from the public sector.

16. Given that public service mutuals are an unknown quantity there are many unanswered questions about just what local authorities do feel their role and responsibility towards a new model is. It is unclear whether local authorities will be permitted to simply hand over a service to a mutual or cooperative, as by their very nature they will be separate companies. If a new business is truly employee-owned there may be questions about whether TUPE will apply. If local authorities provide too much support to what is essentially an outsourced company, local authorities may be in danger of breaking EU rules on state aid. Even if a local authority does award a contract to a mutual or cooperative in the first instance, when the contract is renewed it will have to go out to the open market. If we imagine a situation where a mutual has run a service for five years and built up some capacity, it will still be a newcomer to a market dominated by large private sector companies and therefore liable to fall at the first hurdle.

17. At present EU procurement rules are not interpreted creatively enough in England by government and the Office of Government Commerce to favour social and environmental concerns, and therefore SMEs. This means the majority of contracts are awarded to large private companies who are able to demonstrate that they

⁵² Francis Maude speech unveiling new support for mutuals, November 2011
<http://www.cabinetoffice.gov.uk/sites/default/files/resources/MCO-Mutuals-Speech-171110.pdf>

⁵³ *Proof of delivery? A review of the role of cooperatives and mutuals in local public service provision* (APSE, 2011).

fulfil the most economically advantageous tender (MEAT) criteria (unlike elsewhere in Europe and to a certain degree by the Welsh Assembly and Scottish Parliament). Until procurement rules are revised to enable greater consideration of social and environmental factors, UNISON is concerned that the shift towards coops and mutuals will be a short-term one. Our concern is that when the contract for a given service is retendered in the future, the conditions will have been created to allow the private sector to effectively “clean up”. Furthermore unless robust governance arrangements are put in place there is a danger that if an alternative model runs into financial difficulties mid-contract it will be ripe for a takeover by a large private company.

18. The experience of the deregulation of the passenger transport executives in the 1980s should serve as a warning about the vulnerability of employee-owned mutuals to privatisation. By the early 1990s, only around 30% of companies remained employee-owned. This followed a period of intense competition which saw small companies have to merge with others in order to remain competitive in the face of large national bus companies. The All Party Parliamentary Group on employee ownership touched on this case in their 2011 inquiry report, stating that “from the perspective of the mutual sector, the lessons are clear. No independent employee-owned bus companies exist at present because the buyouts were debt-financed; the employee ownership was based unsustainably on individual shares which required an exit route, and the deregulated market forced smaller operators to consolidate and merge to achieve essential economies of scale”.⁵⁴

What are the advantages of and drawbacks to providing services via not-for-profit businesses?

Where services are delivered by not-for-profit businesses what difference will the local resident and local taxpayer see?

19. Local authorities and public bodies by their very nature exist to provide services that have social aims and objectives, meeting public need. There are many areas of public service which are simply not appropriate to seek to make a profit from, even if the aim is to reinvest that profit back into the service. Social care, refuse collection and libraries are just three examples of areas which are unlikely to make a surplus to be reinvested and which should not be subject to commercial principles.

20. Many local authorities have a history of commissioning and grant-funding small community and voluntary sector organisations to undertake functions which require a certain specialism, cultural awareness or need to sit separately from the local authority, such as independent advocacy services. Many such organisations have seen their funding cut as local authorities struggle with a much-reduced settlement from central government. There is a case to be made that such organisations should continue to be grant-funded by local authorities to deliver these services, rather than being tendered out. Procurement of services can be a lengthy process and one which requires a level of resource, expertise and funding that many community and voluntary sector organisations would struggle to fulfil.

21. It is accepted that for any kind of cooperative or mutual to be successful, the buy-in and active participation of staff is key. This is proven to be true in all types of organisation—commercial or public—through large bodies of research which demonstrate that genuine workforce engagement is central to service or product improvement. There is sadly little evidence of local authorities seeking to engage employees in a genuine partnership to improve services and make them more responsive to local need. This is also true of user engagement.

22. UNISON branches report that many proposals for alternative delivery models are in fact management-led with very little input from staff. Indeed many staff report going along with proposals because they feel there is no alternative, and they are often told that it will save jobs and terms and conditions from the cuts. UNISON is clear that alternative models are not a panacea for cuts and are perhaps even more vulnerable to them than in-house models. A recent case in Kent showed that even with a contract in place, local authorities can choose to withdraw funding at any time—“former council employees were encouraged to leave their jobs and join Project Salus on the back of Kent’s decision to provide the company with a three-year grant. But in December 2011 Kent announced that it would terminate the grant”.⁵⁵

23. One of UNISON’s main concerns about the fragmentation of public services and the creation of “not for profit businesses” is the loss of democratic accountability. Local councils are elected by their constituents and accountable to them through the ballot box. There will be very little ability to influence a mutual or cooperative’s direction once established. Research by APSE, referenced earlier in the submission, posits that the sustainability of public sector provision could be negatively impacted by the fragmentation of services through divestment away from the sector. They go further in arguing that there is some evidence to suggest that “divestment exercised a downward pressure on staff terms and conditions; and there was very little evidence of accountability to elected members and/or the community”.⁵⁶

24. In summary, UNISON would hope that the notion of the “co-operative council” is developed to engage employees’ and users’ knowledge and experience to maximize the use of public money and provide the best

⁵⁴ *Sharing ownership: The role of employee ownership in public service delivery* (The All Party Parliamentary Group on employee ownership) June 2011.

⁵⁵ Local Government Lawyer—*Social enterprise run by ex-council staff launches JR over axing of grant after just six months* http://www.localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=9401%3Asocial-enterprise-run-by-ex-council-staff-launches-jr-over-axing-of-grant-after-just-six-months&catid=56%3A litigation-articles&q=&Itemid=24

⁵⁶ *Ibid* (APSE, 2011).

possible in-house services. We believe that there is little evidence of employees wanting to “spin off” services and run them themselves and that this would fragment service delivery further and almost certainly lead to privatisation further down the line. We do however believe that there is potential scope for improving services and our members’ pay and conditions—particularly in the area of social care—by ending contracts with large, unresponsive private companies and creating co-ops or mutuals. These could also provide a collective and positive working situation for isolated personal assistants.

May 2012

Written evidence from the Local Government Association

The Local Government Association (LGA) is here to support, promote and improve local government. We will fight local government’s corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services. www.local.gov.uk

1. SUMMARY

Councils are democratically accountable bodies, uniquely placed to understand the needs of their communities, take a joined up approach to meeting those needs and ensure that services are accountable no matter which organisation delivers them.

Councils are leading the way in reforming the way services are delivered, opening up markets, supporting enterprise and supporting communities to play a bigger role in the running of services.

Delivery models and ways of engaging will be different in different areas and councils have a long history of engaging their communities in services. Not-for-profit providers clearly have an important role to play but the goal in reforming services must be to improve services for the citizen and make services more efficient, not to support a particular model or provider.

2. NOT-FOR-PROFIT BUSINESSES AND LOCAL AUTHORITIES

Support for the principles of co-operative working in local authorities can be found across the political spectrum. Seventeen Labour councils and Labour Groups within councils are signed up to the Co-operative Councils Network (see Appendix A) run by the Co-Operative Party. Many Conservative, Liberal Democrat and Labour run authorities are also encouraging and facilitating communities, civil society organisations and council employees in the design and delivery of local public services. Independent and smaller political parties are also exploring ways of utilising the principles of co-operative working.

Councils’ experience of reforming services through community budgets, commissioning services, supporting competition, sharing services and providing people with personalised budgets all demonstrate how joining up services at local level can make them more responsive, efficient and accountable.

Local democratic accountability is the most effective and efficient way of giving people more control of the services they use whilst delivering value for money to the tax-payer. Councillors have the democratic legitimacy to champion the rights of service users and tax payers and hold services to account no matter which organisation provides them.

Real choice and real prioritisation will require a more radical decentralisation of decision making and funding. Government must accept that responsibility lies locally and there will be local variation. Councils must show leadership and take responsibility even when things go wrong.

The recent Public Services (Social Value) Act placed requirements on government commissioners to consider social and economic value when commissioning public services. Councils have a long record of working with their communities and the voluntary and community sector (VCS) in delivering services. Councils are already working to encourage small organisations and social enterprises to compete for contracts, by, for instance, making funding available to build local capacity and a more sustainable VCS sector. For example, Bristol City Council are supporting local VCS organisations to work together to deliver a major new contract with Job Centre Plus and Gateshead Council has established a £1 million fund to help VCS organisations become more competitive.

Councils are also working with VCS partners to develop more mature relationships around commissioning and procurement. For example, Suffolk County Council has worked with national VCS partners to design a programme to develop a sustainable market of public service providers; Sheffield City Council is working with Voluntary Action Sheffield to review and reshape their commissioning and procurement processes; and the London Borough of Camden is investing in co-production with local VCS organisations through its equality and cohesion fund.

Local authorities are already using social enterprises as part of their overall strategy to delivering improved, customer focused services at a lower cost. For example, Kirklees Council is developing a social enterprise hub that will aim to increase the range of service provision for adult social care; Hartlepool Borough Council

worked with Hartlepool PCT and Turning Point to develop and run their “Connected Care” social enterprise; and Sheffield City Council has contracted a local social enterprise to manage the city’s green spaces.

In many cases the organisations best placed to help councils to deliver economic, social and environmental benefits in a local area, both directly and indirectly, are those organisations strongly rooted within local communities. This includes social enterprises but also the wider voluntary and community sector and local businesses.

The LGA is already supporting councils and councillors with effective engagement and commissioning to help them to develop “bottom up” services through a confident and in-depth knowledge of local community priorities and potential local providers. Our “Keep it REAL: Councils at the heart of their communities” programme is supporting a range of councils across the country to work with their communities and VCS organisations on local priorities ranging from drug and alcohol misuse, to a community-led approach to spending the Community Infrastructure Levy, to revitalising area forums.

Case studies from across the country, included in Appendix B, demonstrate how councils have worked closely with their voluntary and community sector and local partners, to develop new ways of working and more effective and efficient services through, for example, revised procurement practices; funding and staff support and advice for community organisations; and new commissioning frameworks. Many councils are taking radical steps to improve their commissioning with a focus on the local voluntary and community sector. For example, Brighton and Hove has developed an “intelligent commissioning” model that radically reshape their organisational structure and Worcestershire County Council has developed a new framework for financial arrangements with the VCS that is more transparent, fair, and strategic.

3. LOCAL GOVERNMENT AND PARTNERSHIPS WITH OTHER ORGANISATIONS

Local government has a long track record of setting up and sustaining effective partnerships with other organisations, both within and outside the local government sector. New ways of delivering services put partnership working—across the public sector and with private and voluntary sectors—ever more at the front line.

One example of this new era of joint working are Health and Wellbeing Boards which will bring together local councils, clinical commissioning groups and other local government and health professionals and local organisations representing the views of patients, communities and people who use services. They will be the driving force for system reform, by identifying the health and wellbeing needs of the local community and agreeing key local health priorities on which to base commissioning plans.

Councils across the country have been working together to deliver efficiencies and provide better services by sharing services and combining commissioning contracts. For example, 219 councils are now involved in shared service arrangements that have resulted in £156.5 million in savings and local government has already shed 145,000 jobs in the past year. Shared services can refer to a range of things. Whilst traditionally thought of as back office arrangements (transactional, operational or professional) councils and other public services are increasingly looking to share senior management arrangements and consider joint-venture relationships with other public sector bodies and the private sector.

For example, the Anglia Revenues Partnership (ARP) is a group of three local authorities working together to manage delivery of revenue services for Breckland Council, East Cambridgeshire District Council & Forest Heath District Council. The partnership has provided both significant improvements in service delivery and annual financial savings in excess of £1 million per annum; there has been a recognised 15% increase in caseload management; and staff productivity has increased by 50% with the introduction of home working.

In Herefordshire, the unitary council and the PCT, NHS Herefordshire, have had joint chief executive and a single management team, together with a single corporate plan, since 2008 across the three organisations. Budgets have already been pooled for service delivery for learning disabilities, adaptations, mental health and continuing care and a public sector joint venture is now being set up to carry out back office services together with a multi-sourcing approach for smaller services. It is estimated that this transformation of services will produce savings of £4.3 million per annum after full implementation further amounting to estimates of £33 million over 10 years.

4. ARRANGEMENTS TO DELIVER SERVICES BY NOT-FOR-PROFIT BUSINESSES

The increased emphasis on the role of civil society and the provisions put in place with the Localism Act 2011, combined with cuts in local authority budgets and the knock-on effect on front line services have generated increased levels of interest in employee-led mutuals as an alternative to in-house delivery of services.

Local Partnerships, a joint venture between the Local Government Association (LGA) and Partnerships UK (PUK), has been co-fund manager of the Department of Health’s (DH) Social Enterprise Investment Fund (SEIF) since 2009. The SEIF has supported a number of spin-outs from the health and social care sector the lessons from which are of relevance to this inquiry and to councils interested in developing these models.⁵⁷

⁵⁷ See <http://www.lge.gov.uk/lge/dio/10341766> for more information.

Key issues for consideration identified by the Department of Health which are more widely applicable include:

- Ensuring staff groups know what to expect as they progress towards launching a stand-alone entity.
- Clarity on asset arrangements, particularly but not exclusively around property.
- Funding for external expertise as groups will have some in-house capabilities to develop their business plans and their organisations but it is rare to find all necessary skills amongst the staff team leading the spin-out.
- Local authorities may need to commit some resources to be able to engage with the spin-out as the local authority will have a lot of financial data (and other knowledge) that will be important for successful business planning.

As mentioned in previous sections however, mutual and spin-outs are only one among many options that councils are exploring as they seek better outcomes for their communities. One aspect of this is the Co-Operative Councils Network,⁵⁸ a group of Labour councils and opposition groups who are adopting co-operative approaches to transform public service delivery in their areas.

Appendix B contains further examples of ways councils are working innovatively with the VCS, social enterprises, other public sector bodies and the private sector to deliver responsive, effective, accountable and local services.

5. DRAWBACKS TO PROVIDING SERVICES AND THE DIFFERENCES LOCAL RESIDENTS WILL SEE

Responsive and efficient services should be designed so as to improve outcomes for service users and taxpayers. This means starting with a need or challenge and delivering a service that can effectively and efficiently respond to these needs. Commissioners should not make assumptions about which type of provider is best placed to deliver different services, as the focus must remain on the outcome and not the process. Unnecessarily restricting the type of service provider expected may also stifle innovative delivery models from other sectors and organisations.

Additionally, local areas will differ in the capacity and ambition of different providers to take on service delivery roles. Therefore, the advantages and drawbacks will be different in different places and will need to be considered on a case-by-case basis. Councils are best placed to weigh up the different options in their role as commissioners and also, through their councillors, as the ones who have in-depth knowledge of the needs of their local communities and neighbourhoods.

The goal should be to ensure that services are provided by the service provider that can provide the best level and quality of service to users and tax payers. Successful not-for-profit businesses can offer benefits, including operating from a lower cost base, innovation, delivering what their customers want and reinvesting surpluses back into the community.

They may also be able to offer locally-grown solutions that have been specifically developed meet local priorities. Making the best use of this local knowledge is particularly important as councils look to involve civil society organisations at the earliest stages of commissioning and comprehensively assess local needs.

Many councils and councillors are working locally to grow and strengthen relationships with civil society organisations. The LGA is complementing this through its ongoing relationships with national civil society organisations to develop ways to support our respective members.

APPENDIX A

MEMBER COUNCILS OF THE CO-OPERATIVE COUNCILS NETWORK

Oldham

Oldham Council is taking steps to become co-operative council. It is devolving power and resources to neighbourhood levels with a town hall, neighbourhood manager and dedicated council contact number in each of the boroughs six districts. It also has an employee volunteering scheme to allow every council employee time to give to local community groups. The Council also has a Co-operative Commission to oversee the work.

Liverpool

Liverpool Council is keen to use co-operative principals and models for the community. Liverpool a history of housing co-operatives, and as the strategic housing authority the council has continued to support them where possible. The Council is developing a “Liverpool Apprentice” model which is intended to create over 100 apprenticeships. The Council are inviting interest from partners such as co-operatives to deliver the scheme. Liverpool Council is also working with a community group in one part of the city to better provide community assets such as leisure centres through the local co-operative and to ensure a high quality service is maintained, but owned by the community.

⁵⁸ See www.councils.coop for more information.

There are 17 Labour councils and Labour groups within councils in the Co-operative Councils Network. These are:

- Lambeth.
- Oldham.
- Rochdale.
- Newcastle.
- Telford and Wrekin.
- Salford.
- Liverpool.
- Sheffield.
- York.
- Stevenage.
- Redbridge.
- Sunderland.
- Kirklees.
- Brighton & Hove.
- Plymouth.
- Stoke.
- Cambridge.

APPENDIX B

FURTHER DETAIL ON COUNCILS' WORK ON COMMISSIONING AND DIVERSITY OF SUPPLY

Brighton and Hove City Council

Brighton has developed an “intelligent commissioning” model, that will involve reorganising its current structure so that senior officers are principally accountable, not for managing delivery but for securing strategic outcomes, like making people feel safe and secure, and will call on 11 “delivery units” to help meet this objective. The restructuring process will reduce the number of posts from six to four and also establish a “commissioning group” to ensure that the best services and facilities are available for their residents. One of the three “intelligent commissioning pilots” held in the locality aims to tackle the problem of domestic violence. As well as the social cost, the direct and indirect costs to the city are estimated at £123 million per year.

Hartlepool Borough Council

Hartlepool Borough Council worked with Hartlepool PCT and Turning Point to determine the needs and aspirations of residents of Owton ward and their views on health and social care provision. The resulting Connected Care service is delivered through a social enterprise managed by residents and local community organisations. An evaluation of the scheme concluded that services were more accessible to local people, take-up had improved and people were less likely to disengage from the system. Connected Care has improved access to services and delivered a range of outcomes for residents in the Owton Ward.

Suffolk County Council

Suffolk County Council asked ACEVO to form a partnership with Social Finance, the Young Foundation and Equity Plus to design and deliver a programme to develop a sustainable market of public service providers across the Eastern region. This programme created a network of voluntary sector leaders and commissioners who are working together to create a shared understanding of what a functioning “market” looks like, how a market can be shaped, the levers commissioners can use to enable the voluntary sector to compete with the private sector on an equal playing field, the skills required to operate effectively in a market and the shifting role commissioners will play in creating choice and control for service users.

Essex County Council

Established in 2009, Essex Cares was the first social care local authority trading company in the country. ECC has found that local authority trading can enhance effective commissioning through empowering the staff to be more responsive to, and engaged with customers. Within the first year of operation Essex Cares had met its efficiency savings requirements, exceeded predicted profit levels, and delivered a dividend return to the Council. They have also delivered discretionary services to generate additional revenue and greater adaptability provided by the trading company model has made partnership working across the public sector more straightforward. User satisfaction has increased, with 99% of those surveyed satisfied with the service they received.

London Borough of Camden

Camden has identified co-production with the VCS as an important vehicle for delivering meaningful outcomes for communities. To facilitate this, Camden are investing in a new “equality and cohesion fund”. Voluntary and community groups will be invited to apply for funds by identifying one to three year projects they would like to deliver. Officers will then work with successful groups to jointly agree clear outcomes to be achieved, based on an exchange of insight and ideas about community need, and to co-design outcomes and evaluation frameworks. This is an alternative to contracting with the VCS but attempts to be much more engaged with identifying outcomes than a traditional grant mechanism or SLA. Camden sees the process as not about procuring a service and monitoring it, “it’s about saying we are investing in you to provide a solution”. Camden engages with the VCS long before the procurement cycle begins. This process of early and non-prescriptive engagement builds capacity in the VCS and provides local insight, from all sectors, to inform the prioritisation and identification of outcomes before even getting to stage of service design.

Worcestershire

Worcestershire County Council identified the need to change its commissioning practice to generate more transparent, fair and strategic funding arrangements for the VCS. This led to a new framework for financial arrangements entitled “Shopping, investing and giving” to facilitate procurement and contractual arrangements with external providers to deliver public services. The framework involves:

- Improved communications to explain commissioning, procurement and contracting.
- A framework to assess the added value or social impact of VCS.
- Encouraging VCS providers to join service-based approved provider lists.
- Funding infrastructure support services to strengthen VCS frontline organisations, champion the VCS and build capacity, and to promote volunteering.
- Strategic, pump priming and community grants VCOs to support their independent roles, which also contribute to overall council aims and objectives.

Voluntary Action Sheffield

Sheffield City Council and Voluntary Action Sheffield (VAS) have worked closely together to help local third sector organisations become involved in public services through:

- A “commissioning framework” committed to a “diverse and mixed supplier base”;
- A dedicated officer in the council to engage with VCS;
- Revised tender documents and clearer documentation from the council about their procurement practices (designed with involvement of business and SMEs);
- A mentor scheme to help third sector suppliers get procurement officer support on their tender submissions; and
- Capacity building support to local third sector organisations and support to help the creation of new consortia in the city.

East Sussex County Council has developed commissioning strategies for older people’s services (including those with mental health problems), learning disability services and services for carers. In 2012 the council will offer new commissioning outcomes through a Commissioning Grants Prospectus—essentially a list of grant-funded commissioning objectives set by the Council and the local NHS.

Bristol City Council have recognised that as commissioners they need to support providers in developing collaborative working. For example, the council secured Job Centre Plus funding for its Flexible Support Fund to support jobseekers to return to the labour market and the project will be delivered by a VCS-led collaboration, instead of the council. The council is supporting the development of the collaboration to take advantage of this £400,000 opportunity. The service should be in place February/March 2012.

Selby District Council intends to de-couple the council’s core democratic decision making function from the physical provision of services by transferring the majority of its staff to a new “service delivery vehicle” called “Access Selby” with the aim of reducing the overall budget. Access Selby is not currently a separate legal entity, and its officers are still council employees, but it could potentially become a mutual, a business (either privately owned or partially or wholly owned by the council), or some other form of joint enterprise. The intention is that eventually around 70% of the staff previously employed by the council will work for Access Selby.

Gateshead Council is providing advice to VCOs and social enterprises in bidding for contracts. They’ve also established a £1 million fund that VCOs can access to build capacity to make them more competitive in bidding for contracts.

Breckland Council

The Anglia Revenues Partnership (ARP) is a group of three local authorities working together to manage delivery of revenue services for Breckland Council, East Cambridgeshire District Council & Forest Heath

District Council. The partnership, created in 2003, has provided both significant improvements in service delivery and annual financial savings in excess of £1 million per annum through improved benefits management, information, communications and technology, better use of buildings and joint procurement strategies. There has been a recognised 15% increase in caseload management, and staff productivity has increased by 50% with the introduction of home working. Initial set-up costs were kept low with the biggest expense coming from external legal support to draw up the partnership agreement.

Herefordshire

In Herefordshire, the unitary council and the PCT, NHS Herefordshire, have had joint chief executive and a single management team, together with a single corporate plan, since 2008 across the three organisations. Budgets have already been pooled for service delivery for learning disabilities, adaptations, mental health and continuing care and a public sector joint venture is now being set up to carry out back office services together with a multi-sourcing approach for smaller services. It is estimated that this transformation of services will produce savings of £4.3 million per annum after full implementation further amounting to estimates of £33 million over 10 years.

May 2012

Written evidence from the Office for Public Management Ltd

OPM (Office for Public Management Ltd) is an employee-owned public interest company with a long-term commitment to helping public services to improve people's lives. This submission draws on our knowledge of the current challenges facing local Government, commissioned systems, new ways of working with communities and approaches to staff-led spin-outs in local Government and other sectors. We have published research into the potential contribution of mutuals in public services and into unlocking local capacity.⁵⁹

We respond to the first two of the Committee's questions.

What is the difference between a co-operative council where services are supplied via not-for-profit businesses and other local authorities?

The current financial reality is that councils cannot afford to go on delivering all the services they typically have in the way that they have. Most councils are therefore taking forward strategies which re-position their relationships with communities, with service users and with providers from all sectors. These strategies should be seeking to create a new settlement around public services,⁶⁰ and typically are designed to move to:

- local people doing more for themselves and influencing the design of services that they do receive;
- service users co-producing better outcomes and their voices being heard at all stages in the commissioning cycle;⁶¹
- more transparency about sources and uses of funding; and
- providers from all sectors being involved in discussions about future service requirements, contributing to innovation in service design and understanding the council's future commissioning intentions.

For councils themselves, these strategic approaches are involving a range of responses:

- structural, for example how directorates are aligned and where commissioning skills are located;
- procedural, such as publishing market position statements as part of the strategic approach to commissioning, defining how periods for expressions of interest under Right to Challenge fit with the council's strategic planning, and designing pathways for consideration of staff-led spin outs; and
- cultural, including fostering new types of behaviour amongst staff and elected members so that local people and providers are involved earlier and more openly in shaping solutions to challenges (distributed leadership).

Exactly how this is progressed will naturally reflect the values and priorities of individual councils, and where they sit on a spectrum which crudely runs from all in-house, through co-operative council, to largely out-sourced to private sector. Co-operative councils are particularly focussing on strategic commissioning, developing provider markets and engaging communities in solutions.

⁵⁹ OPM, *Shared Ownership in Practice: findings from case studies of employee and community ownership of public services*, December 2010.

OPM, *Unlocking Local Capacity*, February 2012.

⁶⁰ 2020 Public Services Trust, *From Social Security to Social productivity—A Vision for 2020 Public Services*, September 2010.

⁶¹ We define a commissioning cycle to be (1) understand needs and outcomes of existing services (2) plan the pattern of services required (3) do the changes in services through procurement or re-design or both (4) review service performance and impact.

However, in all cases we suggest that councils will be taking a phased approach and looking at services on a case by case basis—to prioritise services that need early decisions about service redesign or re-commissioning and to do so in the context of the current provider market and ambitions for its longer term development.

What arrangements need to be put in place to deliver services by not-for-profit businesses such as employee-owned mutuals? More specifically, what are the barriers to establishing not-for-profit businesses to supply services; what role does the local authority have in promoting and incubating a not-for-profit business; and where does accountability lie?

The Government has focussed its mutuals policy on staff-led mutuals, and we support the potential of this model in appropriate circumstances. The Committee is focussing on co-operative councils and not-for-profit businesses. We have argued⁶² for more clarity about the spectrum of options, for example: staff-led mutuals can be not-for-profit or for-profit, and mutuals can have different stakeholders involved (involving say staff and users or as user-led organisations).

The barriers that are usually cited for employee-led spin-outs from local Government are well known (eg procurement, pensions, VAT, accessing investment finance). As critical, often, are the skill and capacity to undertake a strategic appraisal of the services and their markets, the process for engaging (and continuing to engage) staff and stakeholders, and the support for leaders of services (who also have a day job to do).

Now that the Right to Challenge under the Localism Act is about to go live, and the draft statutory instrument about grounds for rejection of expressions of interest under right to challenge has been published, councils are clarifying their arrangements. From our network of clients and contacts in local authorities, we are seeing the establishment of policy and procedural frameworks which set out how employees can come forward for staff led mutuals, what support will be available, and what the decision-making points are. Typically, once an outline business case has been made and accepted, councils will have clear separation between the client/procurement side and advice or support to the potential spin-out. Local frameworks will be consistent with the council's approach to commissioning and market facilitation and to handling community expressions of interest.

There is growing experience of managing these transition procedures, but—as councillors have commented in evidence—generally there is still a thirst for more sharing of knowledge and experience across and within councils.

The potential benefits of staff-led mutuals are about innovation and productivity, relationships with services users or community stakeholders, and social responsibility. Employees have to feel that they can influence the direction of the organisation and its services. As such, the new mutuals need to be able to build their independence and their own business development capability. The Council's accountability should be for careful assessment of business cases for potential mutuals, appropriate procurement processes, and good decisions about award of contracts with a view to improved outcomes and sustainability. We should all be in this for the long term.

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⁶² OPM, *New models of public service ownership: a guide to commissioning, policy and practice*, August 2010.