FIVE YEARS ON – HEAVEN OR HELL FOR PUBLIC SERVICE MUTUALS?

There has been plenty of attention given to how we can encourage and support the emergence of public service mutuals - but as yet there hasn’t been much thought given to what the mutuals market might look like in five years... will it be thriving and self sustaining? Or will it have floundered with public services taken back in-house or contracted out to the private sector?

To plug this hole we decided to spend some time with a group of social enterprise experts thinking about what the optimistic scenario (Heaven) and pessimistic scenario (Hell) for the public service mutuals market would be as well as an honest critique of both.

We’ve used a pretty broad interpretation of public service mutuals for our discussions: organisations journeying out of the public sector to independence delivering a variety of services.

The following is what we came up with. Imagine you are looking back from May 2016…

HEAVEN – ANDREW LAIRD

It's five years since the publication of the Cabinet Office's ambitious Open Public Services White Paper and - following the rapid passage of legislation to give frontline staff and communities the Right to Challenge to run services - things are looking very positive!

We can genuinely say that a sustainable public service mutuals market is emerging and there is a positive buzz around the mutuals sector in terms of customer and staff satisfaction (and oh yes - value for money too!). After a short period of top down encouragement the norm is now very much for staff groups to drive the process from the bottom up with public authorities playing a reduced but important role as enabler.

Other aspects of legislation have been tidied up so that the legal reality now reflects the policy – barriers have been removed and procurement rules have been clarified and simplified – the Social Value Bill was passed five years ago (undiluted) and social value is now an established, well understood and accepted aspect of all public procurement. This has done a lot to level the playing field for small social enterprises. To support this, there is now a standardised and robust method of measuring social value which everyone is pretty happy with.

The benefits of the successful mutualisation agenda have spread to other areas of public sector delivery through the natural inclination of the mutuals to share best practice with fellow public service professionals (wherever they sit). The Chief Executives of some of the UK's best known private companies have even been spotted making secret pilgrimages to visit mutuals to see if they can capture some of the magic!

Access to funding, which was for so long a genuine block to growth and development, has been resolved through the emergence of new and innovative financial vehicles for start up and expanding social enterprises. The Cabinet Office's pot of cleverly structured funding along with the Social Enterprise Investment Fund played incredibly important roles in pump priming the mutuals market to create the space for these new financial vehicles to emerge.

The issues around pensions, contracting and employment conditions have all but disappeared as the (Hutton report inspired) public sector pension reform has now kicked in and the pension provision gap has reduced notably.

The emergence of public sector mutuals who "own" entire service cycles has generated a much greater focus on early intervention. Investment in early intervention and prevention in order to reduce the demand on services are now a standard aspect of any mutual business plan and as a result they are improving outcomes for service users (and well as reducing overall costs).

As a final point - those staff groups who decided not to take the opportunity to "spin out" and the Local Authorities and commissioning bodies who discouraged their staff are sorely regretting it!

All in all a cracking five years!

HELL – DAN GREGORY

What a mess. For a few years, no-one came forward. Public services were cut, put out to tender and scooped up by the private sector while teams of staff interested in mutual and social enterprise spin-outs waited for central government to deliver for them.

Then, as it became clear that Cabinet Office, the Department for Communities and Local Government and others were wasting everyone's time, public servants realised they just had to give it a go themselves and tried to exercise their incredibly flimsy and watered down "Right to Challenge".

Most never even made it. They were told to get back to the day job or the redundancy notice was in the post. Others wasted millions of pounds of taxpayers' money on options appraisals, business plans and transition plans, which never saw the light of day (although the consultants and lawyers were happy).

Some made it through. Then fell over. Immediately, it became clear that the extra VAT costs were unmanageable, cash flows were too uncertain, or contracts were badly negotiated and undeliverable. All this arrived as budgets were being squeezed – so these new mutuals found themselves pushing a bigger rock up a steeper hill with a smaller team.

A few made it so far and then the legal battles began. Uncontested contracts granted to spin-outs were contested in court and rescinded. Assets which had been transferred had to be returned to the public sector, bankrupting the spin-out.

A dozen or so lasted a year or two. But then staff started to rebel against their management and brought business to a halt. Others were demutualised and the assets were drained away by investors. The Trojan Horse opened up.

A brave handful lasted the term of their initial single contract and then collapsed as new contracts failed to emerge, they couldn't attract the risk capital they needed to develop, the private sector entered the market and undercut on price and quality. Pensions and other liabilities started to materialise. Mistakes made by the early adopters proved costly. Some services were mismanaged and brought back in house. The high profile of these failed pioneers caused irreparable brand damage to social enterprise ("that thing what government did which went wrong").

Who was left? Those who let their social mission slide, who treated their staff like dirt, who piled public services cheap and high. A few dominant monoliths.

Of course, one or two made it and delivered well. But no-one got to hear about them. Meanwhile, Co-ops UK and SEC haven't spoken to each other for years now and the Voice 2017 conference has been extended over 12 days to provide enough time to deal with the definitional debate.

So here we are, left with our failed public sector models and private profiteers. But let's be positive! The Transition Institute has a new logo, the Cabinet Office taskforce is about to report and the Public Services White Paper is due any day now…

SYNTHESIS – SARAH MCGEEHAN

So meanwhile back in 2011, what can we learn and how do we plan from these very different five year out scenarios?

We have heard again and again that the journey from being a public sector manager to social entrepreneur can be long and lonely. There is no faulting the drive and commitment of the managers and teams that seek to spin out – but they do not emerge as fully formed independent businesses. They need help support and more that a dash of practical advice and infrastructure services.

Risks and how to mitigate them (and attract money that understands risks) are different as independent entities. If spinning out is scary – facing open competition for services you did months or even weeks before can be harrowing. Reading (and translating) the world of balance sheets, cash flow (and for those developing buildings or seeking fast growth) pitching to an investor are all daunting. The financial management of the business and how it is funded can be bewildering, but it is possible to intermediate. No advocacy for protectionism or monopoly here – but some recognition of the intermediate stages of growth in strength and independence would help more spin outs to get and stay on their feet.

The challenge of navigating the new world of contractual rights and responsibilities is another huge area for professional advice and peer support. Even once spin-outs navigate emergence, transfer of employment contracts and secure initial contracts, there is still the need to continue to maintain standards, protect assets and guard against hostile private merger or acquisition.

Finally, one of the reason new mutuals are championed is because of their hoped for ability to engage staff, users, patients and customers in new ways. Not off-set the cost of increasingly unaffordable services – but engage in a considered and productive dialogue about service design delivery and participation. That takes new ways of working and a new wave of responsibility.

The **Transition Institute** (TI) is a new, independent centre for research formed to inspire and facilitate new models of public service delivery embedding innovation and social value in the structures.

www.transitioninstitute.org.uk

POPse! was the world's first pop-up social enterprise think-tank, launched on Monday 9 May 2011 and disbanded on Friday 13 May. It sought to provide a burst of critical energy and robust analysis of social enterprise policy and practice through the publication of think pieces, pamphlets and other web-based material.

www.popse.org.uk