Catalyst Councils

A new future for local public service delivery

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Foreword by Rt Hon Oliver Letwin MP

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About Capita Symonds

Christian Rogers,
Director,
Capita Symonds

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Foreword

Rt Hon Oliver Letwin MP, Minister of State, Cabinet Office

When I set out the Government's vision for the reform of public services in last year's Open Public Services White Paper I was clear that much of what is done by our public services is among the best in the world. But we also know that in some neighbourhoods, in particular our most disadvantaged communities, public services can often fail to deliver the outcomes that local people deserve. It is no longer good enough that some of our citizens should have to put up with unresponsive, underperforming and uniform services, designed and delivered by a top-down process with no regard to the nuances of local need, no flexibility to adapt to changing circumstances or no requirement to listen to and make room for the knowledge, experience and capacity of local people.

That is why this Government is committed to the transfer of power and influence over how services are delivered – away from the centre, and into the hands of those who use them. It is why we are seeking to support innovation, excellence and greater access to capital investment by opening up the delivery of publicly funded services to a diversity of providers. In our attempt to drive up standards, improve outcomes and achieve value for money for the taxpayer, it is only sensible and fair that those organisations and enterprises, from across the public, private and third sectors, who have the relevant experience, capacity, and enthusiasm are able to play a greater part in meeting the challenges faced by our society.

As this timely report recognises, for a number of reasons – not least among them the economic reality we face – the status quo is not an option. Fortunately, with challenges come opportunities, and it is good to see that local government is leading the way in developing innovative new approaches to public service delivery. These range from a next generation of partnership arrangements with external partners that seek to fairly balance risk and reward, to inititiatives that aim to promote mutuality and greater levels of employee and community ownership, and exciting developments arising from the pooling of the state's resources at a local level.

Localis should be commended for producing a report that not only points out the options – as well as the pitfalls – open to councils, but which also in its recommendations describes some of the key barriers that need to be overcome for local government to pursue this agenda further. The report rightly highlights the need for enhanced commissioning skills in both central and local government and makes some useful suggestions for how we might achieve this in collaboration with colleagues at the Local Government Association. I am determined that this Government will continue to do everything possible to address this skills gap and any other impediments that prevent local authorities from assuming the enterprising, innovative and catalytical role that our citizens and communities will increasingly rely on them to perform.

Executive Summary

Working in local government at the moment must be alternately disheartening and exhilarating. Disheartening because local government is facing its greatest ever financial, operational and strategic challenges; and exhilarating for the same reasons. With a 28% reduction in its budget over the five years from 2010, local government has taken its fair share, and more, of the Government's squeeze on public expenditure. At the same time, it is also faced with rising demands on many of its services – not only the inexorable rise in the cost of social care which, if nothing changes, is projected to consume the totality of councils' budgets in a few years – but the current baby boom, and the resulting pressures on resources such as housing and public health that this will entail.

But with challenges come opportunities, specifically opportunities to think afresh about what the role of local government is, and how it can be realised. With a policy context that seeks to open up public service provision, alongside a decentralising drive to devolve powers and responsibilities away from Whitehall, local authorities have demonstrated considerable appetite and aptitude for responding to the new agenda. By and large they are no longer the monolithic, top-down providers of remote, unresponsive and one-size-fits-all services sometimes characterised in the media. This report examines a number of local service delivery models and methods that are being trialled and developed across the country, and which have the potential to not only transform the provision of public services, but the very role and function of the local state itself.

In fact, local government has a long history of devising and implementing models of responsive, value for money services that are an alternative to traditional in-house delivery. Views and decisions on alternative models, however, have often been seen and taken through an ideological prism, accompanied by a mantra of public bad, private good – or vice-versa, depending on the political outlook in question. It is time to move out of the cul-de-sac of closed thinking that unquestioningly supports one approach or the other.

Instead councils need to focus on the pressing need to promote and encourage local economic growth and to transform the way that public services are delivered. Working with a variety of partners from across the public, private and third sectors, councils must move from being a service provider to a service specifier, from a problem solver to a preventor of problems, and assume the mantle of local game-changer.

New ways of working
Some councils are making significant headway in adapting to meet these challenges, with new ways of working such as employee-owned mutual spin-offs, greater openness to third sector involvement and the development of a next

generation approach to public-private partnering. The impact will be varied with some local authorities doing less traditional in-house delivery and instead using trading subsidiaries, joint ventures and arms-length arrangements, but others will find themselves doing more, using new freedoms and flexibilities.

These new models raise significant issues that local authorities need to address, in particular around local authority capacity, accountability and the role of the elected member. In particular, in the future all councillors will have a greater role to play in championing their local community, drawing on their knowledge and experience of local issues and needs, and ensuring providers deliver against specified outcomes in their localities.

Barriers to innovation

Barriers still exist to the reform and innovation agenda. Some are internal, such as ideological opposition to non-traditional models of provision, employee reluctance to become new employee-owned mutual spin-offs, and muted appetite for enterprise and risk from members and officers. These obstacles, stemming from an organisation's own leadership and culture, can be reinforced by external barriers that serve to limit and frustrate widespread adoption and success of new models. Special mention here must go to the complicated EU procurement rules that generate reams of unnecessary bureaucracy, as well as unduly hampering commissioning approaches that encourage third sector providers or staff mutuals. In pioneering new ways of designing and delivering local services, these models are underpinned by – and dependent for their success on – a reorientation of the council's relationships, not just with local citizens, but with partners from the public, private and voluntary sectors. If everyone plays their part, these new relationships can help councils to achieve anticipated service efficiency and improvement objectives, including promoting local economic growth and maximising social value of tax payers spend.

If local citizens and communities want to continue benefiting from the levels of service they are accustomed to, they will have to assume a greater level of responsibility in helping determine what services look like, and what needs they are designed to address. They may also have to become involved in the delivery of these services, as well as thinking about how to reduce latent and presenting demand. Similarly, councils will be looking to enlist local third sector capacity, and as a result these organisations must be able to respond with an approach predicated on trade, not aid, delivering services through a social enterprise approach.

Public sector partners will have to recognise that greater collaboration and the pooling of funding, organisational resources, decision making and joint commissioning of services is only the starting point in the drive to maximise state spending in meeting local needs and solving problems in a holistic and 'joined-up' fashion. Community budgets may be an effective way of building on past work in this area, but moving from rhetoric to the integration of public service delivery at a local level – ideally under the democratically accountable leadership of the local authority – will be complicated, requiring new levels of trust and an appetite among all partners to overcome organisational silos, empire-building tendencies and preciousness over finances, resources and concepts of sovereignty.

Sharing risk and reward

The private sector, in working with public partners on joint programmes, projects and ventures must realise that a new generation of partnerships is required. There simply isn't enough money any more to allow for the type of old-style Private Finance Initiative (PFI) contracts that socialise risk while privatising profit – they are rightly dead, and must remain buried. Working with local authorities will need to involve a new level of commitment, flexibility and fraternity in formulating contracts and creating joint ventures and partnership arrangements which are genuine joint enterprises. Risks and rewards will need to be shared fairly, and joint arrangements constructed to reflect and ensure this.

In return for the longer-term contracts that will be needed to underpin capital intensive investment and business transformation processes, local authorities will need to ensure – and private sector partners will need to accept – a greater degree of inbuilt flexibility to allow for contract changes to reflect when circumstances change. They will also need to be open to councils' desire to maximise social value through taxpayer spend, such as by supporting local economic drivers thereby promoting economic growth (for example targeting the provision of apprenticeships, or local employment). To do this, local authorities will need support to help strengthen their in-house skills and capacity in successfully negotiating and managing contracts.

Our recommendations in summary
- Local authorities should evaluate potential service options on their merits, and avoid making decisions on future provision based on ideology
- Councils will need to ensure that they emphasise solutions that serve to promote local economic growth and maximise the social value obtainable through taxpayer spend
- Government should seize the opportunity presented by the current EU review of procurement regulations to argue strongly for a truly fundamental reshaping so that they are made much simpler, less administratively burdensome, and more flexible
- Government should move to act in reducing the perceived and actual complexity of employee ownership. This should involve the development of clear, simplified 'off the shelf' and 'ready to go' co-operative and mutual models
- Government should prioritise the creation of long-term transition arrangements and the temporary exemption from EU procurement rules for mutuals
- Government should do more to encourage local public sector partners to participate positively in the pooling of resources and funding, and to agree strategic commissioning outcomes and the joint implementation of arrangements to achieve them
- The LGA should join forces with the Government to establish a 'Commission on Better Commissioning' (CBC) to determine how best to ensure that councils and their public sector partners can close the commissioning skills gap
- The CBC should assume responsibility for designing and overseeing the Commissioning Academy announced in the Open Public Services White Paper as the Governments vehicle for investing in a national training programme for commissioners
- Government and LGA to use the CBC to assist local authorities and other parts of the public sector to understand what they can and cannot do, including on revised EU procurement directives
- Elected members will need to be equipped with the relevant skills required for with their new roles as community champions and service scrutineers
- The new way of working for local authorities will rely on honest, trusting and mutually beneficial relationships, with both residents and external partners from the public, private and third sectors

- To be a local game-changer, local authorities will need to re-learn the old attitudes of municipal enterprise in order to catalyse real change in their areas

We conclude this report by summarising the new attitudes that we believe are required from all participants. We urge councils to give up some of their control and to embrace working with providers of all types to design innovative and efficient services. We encourage the private sector to be more responsible, not just looking for quick profits by restructuring back office functions, but developing more long-term, mature and strategic partnerships that share both risk and reward with councils. And we advise the voluntary sector to commit to practical, sustainable and economically viable solutions, working in partnership with other bodies as and when is necessary. Finally, we appeal to citizens to embrace the changed nature of the relationship with their council and play their part in ensuring the ongoing provision of high quality local services.

To deliver public services fit for purpose over the course of the next decade, all of these groups need to rise to the challenge. If they do, innovation in service delivery could flourish as never before.

1. Structure and methodology

Chapter Two looks at the National Policy Context, including Localism and the Open Public Services White Paper.

Chapter Three explores the role of local government, looking at definitions, functions and operating models.

Chapter Four assesses local government's response to date to the challenges and opportunities it faces.

Chapter Five discusses what we mean by alternative delivery models, looking at a number of vehicles including commissioning, strategic partnering, shared services, the co-operative council concept and employee-owned mutuals, as well as a note on the third sector.

Chapter Six focuses on novel methods of service delivery that are being developed and implemented, including looking at options for local authority trade and enterprise, changing citizen behaviour and deploying preventative measures to reduce levels of demand for public services, new innovative payment mechanisms for service delivery, devolution of power, assets and greater responsibility to communities and the opportunities presented by the Community Budget pilots.

Chapter Seven raises many of the key issues that local authorities need to address in achieving truly transformational change.

Chapter Eight lists our recommendations, and is followed by our Conclusion.

Methodology

This project draws upon a survey that was sent out to every Council Leader and Chief Executive in England over the summer of 2012. With 82 responses received, these findings represent a credible snapshot of local government's experience of, and attitude towards, current and future models of public service delivery.

This was accompanied by desk-based research, and qualitative research in the form of face-to-face and telephone interviews, following on from the initial Localis Roundtable.

2. National Policy Context

In the 2010 Spending Review, the Chancellor announced that the budget for local government would be reduced by 28% over five years – a total cut of £4.2 billion,[1] by far the largest departmental budget reduction, with the majority of the cuts coming in the first couple of years. While this is a significant challenge in itself, there is the possibility of further spending reductions ahead, indeed a cautious Chief Finance Officer might not even rule out the possibility of further in-year cuts before the next Spending Review. The Chancellor also pledged to prioritise spending programmes that jointly promote "long-term growth, and creating the conditions for a private sector-led recovery" but also those that promote "fairness, with all sections of society contributing to tacking the deficit, while protecting the most vulnerable and providing opportunity for the poorest".[2]

Localism and Open Public Services

Local government has taken the Chancellor's comments on board by ensuring that their response has not solely focused on cutting budgets or services. Instead they have shown a collective willingness to trial more innovative, streamlined methods of public service delivery that offer enhanced value for money without compromising on the quality of provision, while also looking to work with local residents, communities and a range of partner organisations in supporting the local economy and promoting economic growth. In so doing, they have reflected the conclusions of the Government's 2011 White Paper, Open Public Services,[3] which included many ideas for reform of public service delivery, including recommending a shift towards commissioning by "any qualified provider" to deliver efficient services at competitive rates.

Another major challenge faced by the country, and one that falls to local authorities to address, is that of ensuring that adequate adult social care provision is in place to meet the needs of the UK's disproportionally ageing population over the coming decades. The number of people over the age of 65 in the UK is set to increase from 10 million to 15 million by as early as 2030, and nearly double by 2050 to 19 million – an increase from a sixth of the population to a quarter.[4] The impending demographic pressures are deemed to be so great that by 2030 taxpayers will have to provide an additional £12 billion each year on top of the current annual bill of £14.5 billion needed to pay for care for the elderly. This translates into an additional annual bill of £79 million for every responsible council, or a further £230 for every man, woman and child in the country.[5] The LGA has argued that this will mean a £16.5 billion funding gap – an immense chasm which will require a radical public policy and fiscal rethink to address.

1. From LGA figures in press release on 20/10/2010 (link archived)

2. www.hm-treasury.gov.uk/spend_sr2010_keyannouncements.htm

3. http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf

4. www.parliament.uk/business/publications/research/key-issues-for-the-new-parliament/value-for-money-in-public-services/the-ageing-population/

5. www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10171/3584848/NEWS-TEMPLATE

Despite significantly reducing local government spending, the Government has shown a commitment to localism, with an oft-articulated vision of creating a 'Big Society' in which communities have much greater input into the improvement and running of the local services they use. This includes giving communities the 'Right to Challenge', which gives voluntary and community groups the opportunity to bid to take over and run a local service themselves.

The Open Public Services White Paper also describes the drive to devolve control over services to the lowest appropriate level in order to encourage a diversity of service provision that better suits communities. The White Paper proposes that 'individual services' – those used by people on a personal basis such as education and childcare services, housing support, and health and social care – should be "put in the hands of the people who use them"; 'neighbourhood services' – those provided on a local, collective level such as maintenance of public facilities, community safety, and leisure and recreation facilities – should be "put in the hands of elected councils, at the neighbourhood level if that is what communities choose"; and for 'commissioned services' – those managed on a wider local and national level such as tax collection, prisons, emergency healthcare and welfare to work – says that "the Government will open [these services] up and, where appropriate, decentralise commissioning to ensure greater quality and diversity".[6]

Pooled budgets and transparency

Another new policy is the Whole-Place and Neighbourhood-Level Community Budgets which are being piloted in several areas across the country.[7] These pilots allow councils and communities to take charge of much greater amounts of public sector spend for their area (i.e. including budgets held by other arms of the state e.g. health, policing, benefits etc). By pooling budgets and resources, the pilots give local areas greater freedom to redesign and customise public services to better meet the needs of local communities and significantly reduce the waste and duplication that arise from uncoordinated, centralised administration. Anticipating the success of these pilots, the Government has committed to roll out the scheme nationally over the next few years.

The Government also believes that as well as receiving greater powers and increased financial responsibility, councils must also ensure that they maintain a high level of transparency in order to maintain public trust. In September 2011, DCLG issued guidance which suggested publishing, at a minimum: a local authority's policies, performance, external audits and key inspections and key indicators on the authorities' fiscal and financial position, senior salaries and – crucially – all expenditure over £500 (reduced to £250 in autumn 2012) including any contracts and tenders worth above that value. A key aspect of delivering effective localised public services in the future will be to maintain an open dialogue between the council and its residents, and visible benchmarks of accountability such as those outlined in the DCLG's code will be vital to the credibility of a localist public service agenda.

With public service reforms planned within a challenging financial framework, but with a strong decentralisation agenda, now is the ideal time to re-evaluate the role that local government plays in delivering public services, and flowing on from that, how best public service delivery can be planned and implemented on a local level.

6. http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf

7. The Whole Place pilots include Chester West and Chester, Essex, Greater Manchester and the London Tri-Borough, the neighbourhood level pilots are listed here: www.communities.gov.uk/news/newsroom/2056449

3. The role of local government

Before looking at how services are designed and delivered, it is first necessary to look at the functions of local authorities, their raison d'etre, and their constraints. The latter can be imposed from above, e.g. financial constraints, European Union rules, statutory regulations and central government direction, or below, e.g. an electoral mandate, community pressure and organisational capacity.

Local authorities are multi-faceted organisations whose powers, role and responsibilities have been shaped through centuries of local activism and by policy directed from Whitehall. As administrative, legislative and tax-levying authorities, they function in effect as both a lower-tier unit of the central state and as expressions of the democratic will of the citizens of a specific locality. The tensions between their independence from and accountability to Whitehall and Westminster, and their representation of and accountability to the population of the locality, go to the heart of the role of local government.

Definitions, functions and operating models

New principles for codifying the relationship between central and local government contained in the form of a recently published draft code, led by Graham Allen MP,[8] provide a useful starting point in defining the role of local government. Describing councils as "autonomous, democratically elected bodies which independently decide upon, administer and regulate the public affairs of and deal with all matters of concern within their boundaries which are not dealt with or attended to by other government bodies", the draft code states that "councils' accountability is to local citizens" with the scope of local government prescribed by statute.

In terms of a local authority's operating model, at one extreme is the vision for a minimalist organisation with no direct service capacity that would, in the words of Nicholas Ridley, be akin to a council in the American mid-west that would meet once a year to award all the council service contracts to private firms. At the other extreme lies the retrenchment of a traditional public sector monopoly model of in-house service provision and a refusal to countenance non-public sector provision and any incursion by the profit motive.

This dichotomy, often reduced to crude sloganeering around 'public provision bad, private good' – or vice-versa – might seem more appropriate to the 1980s and 90s. This period saw the advent and demise of Compulsory Competitive Tendering, followed by Best Value, then succeeded by various policies around

customer choice, personalisation, community involvement and partnership-working, and the growth of social enterprise, together with a general move towards commissioning more outcomes-focused provision. The result is that councils reached a balance between a continuation of in-house provision and outsourcing and market contestability of services, with a mixed-market approach characterised by a plurality of providers. This level of diversity is set to continue.

Unless ideologically committed to the superiority of public or private provision it is hard to argue that outsourced or in-house provision will always be 'better' than the other, as evidence can always be found to support the arguments of either side (e.g. empirical evidence pointing to poor performance of both outsourced and in-house service delivery). Opponents of outsourcing might argue that the pursuit of profit is incompatible with a public service ethos, while those in favour might see publicly delivered services as inefficient, captive to producer interests and lacking innovative drive. Despite the high-profile failure of some private sector contracts, for example the G4S Olympics security situation, leading councillors have called for a balanced view with Councillor Sir Merrick Cockell, Chairman of the Local Government Association (LGA) arguing that "there are very good cases for outsourcing. There are even stronger cases for testing a service properly to see whether it's the right service to outsource, to see whether there's a mature market out there that may be suitable to tender against it and then properly to reach a conclusion that there is, or there isn't".[9]

Recently some local authorities have chosen to bring services back in-house for a variety of reasons.[10] For example, in 2010 Islington Council brought its building cleaning staff in-house on Living Wage contracts, partly to fulfil the council's strategic political emphasis on equality, but also to create a more efficient and improved service. Others are pursuing in-house improvements to services, such as through implementing 'systems thinking' approaches to the reconfiguration of how services are designed and delivered against local demand. Councils are also able to draw on improvement advice and tailored solutions from specialist support agencies such as iESE, the local government owned and controlled improvement social enterprise. It argues that as a result of their work, iESE generates £5 in efficiency savings for every £1 invested – with total savings of £250 million over the last 5 years.

Yet even before the onset of the recent spending squeeze and central government's emphasis on 'sector-blind' delivery, local government has been quietly responding to the need to innovate. Moving away from both the traditional model of local authority as service provider and beyond the narrow restrictions of securing delivery through a focus on cost-reduction, local authorities have been powering ahead in a search for new models of delivery that discharge their duty under the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which they exercise their functions, having regard to a combination of economy, efficiency and effectiveness".

9. www.ft.com/cms/s/0/c5fbac4c-dd70-11e1-aa7b-00144feab49a.html#axzz23bvLVkJC

10. www.unison.org.uk/acrobat/20122.pdf

4. Local government's response to date

"We have a philosophy of working with anyone who has shared goals and is willing to share risks and reward in an open and transparent manner"
Respondent to survey

Local authorities are no strangers to an ongoing cycle of continuous improvement and accretion of efficiencies, and indeed have a strong track record of delivering savings. For example, in the recent past 220 local authorities have between them delivered savings totalling £165 million from shared service arrangements alone.[11] But the dimensions of the financial challenge that local government faces means that incremental gains are not the answer. Nor will such tweaks help to transform changes to services that deliver qualitative improvements in outcomes.

Councils have responded to this challenge in a number of ways, with many exploring whether other providers are better placed to deliver services. Our survey found that over 85% of respondents thought that local government is ahead of the game in developing innovative new ways of delivering public services. Of course, commissioning services from an external provider is not a particularly novel idea. Since the social care reviews of the late 1980s and the NHS and Community Care Act 1990, the idea that a local authority could be a commissioner of a service, but not a direct provider of it, began to take hold. Over twenty years later, our research suggests that percentages vary but roughly a third of council services are now provided externally, whether by private sector, third sector, or mutual-based organisations. Clearly, then, most local authorities are open to the principle of commissioning services. However, this often tends to be in discrete service areas based on tried and tested forms of contracting.

Legislative barriers may also put the brakes on reform, or at least that is the perception. Certainly our survey finds that 86% of councils believe that local government needs more freedom and flexibility to meet the coming challenges. The limits of the General Power of Competence (GPOC), and its predecessor the 'Wellbeing Power', have been and will continue to be tested through judicial review – the use of which has become more frequent in recent years and therefore is a more significant risk – but the Government has made a clear statement of intent that it wishes to remove legislative barriers where it can. And strong council leaders and chief executives have shown that an unnecessarily risk averse culture can be tackled and resolved. In theory, therefore, bureaucracy and red tape should not play a significant role in stopping councils from coming up with innovative solutions to delivering services differently.

11. www.local.gov.uk/c/ document_library/get_ file?uuid=105edabf-9072-49f5-94d9-f6065cf69842&groupId=10171

www.localis.org.uk

However, actual and perceived legislative barriers still exist that can serve to deter councils from pursuing more radical options, such as the use of public sector mutuals, particularly those relating to EU procurement legislation. While Government is mindful of these, and is seeking temporary exemption to the rules in order to improve the diversity of provision and facilitate a more conducive environment to employee-owned spin-offs, until there is a greater level of surety over the sustainability of such vehicles they may remain difficult to transfer from the drawing board to a model that is able to 'wash its own face'.

Another area where legal issues might act to prevent innovation relates to local government's statutory roles. Some councils are looking at the possibility of a broader interpretation of statutory requirements, for example devolving services which are currently statutory like the registration of deaths, which could be potentially delivered in a more flexible and locally responsive fashion by a more local body such as a parish council or a voluntary organisation (e.g. a child bereavement charity). It is important that 'statutory' does not become an excuse for providing the service in the same way (e.g. in-house) without considering different forms of service delivery.

As mentioned above, the Government's Big Society agenda has encouraged local authorities to begin to re-examine their relationship with citizens too. The first wave of services that have transformed into being volunteer-led, such as libraries and youth centres, are still in their infancy and there is a patchwork of different policy solutions across the country (and rightly so, from a localist perspective). But there is a broader trend that citizens are only just starting to consider – that their local authority may not 'do' everything in the future. Either someone else might 'do' it on behalf of, or in partnership with the council; volunteers might 'do' it themselves; or that someone might only come and 'do' whatever is needed if they receive an additional payment.

Yet the policy environment in which local authorities are operating is moving fast, and while some are equipped with navigation tools, others are not. Some are at the forefront of this new agenda, such as the five new 'Future Council' pilots, supported through funding by the LGA.

> ### The five 'Future Council' pilots seek to address many of the models this report looks at, such as:
>
> * Buckinghamshire County Council's work to reduce demand on services through behaviour change, early intervention and preventative measures
> * East Riding of Yorkshire and Scarborough Borough Council's internet-based 'virtual customer services centre,' serving as a shared platform for the public sector for commissioning personalised services
> * Birmingham City Council's Loyalty Reward Scheme, initially trialled to change behaviour around paper recycling and leisure activity

- Trafford Council and Amey's joint public-private trading company to provide services supporting other local authorities and NHS partners to integrate health and social care
- Rushcliffe Borough Council's aspiration to develop a social enterprise franchise operation, Streetwise, for environmental services and grounds maintenance

In contrast, some local authorities are only just beginning to engage with this agenda, taking tentative steps towards the more innovative options described in the following sections.

5. What do we mean by alternative delivery models?

This report looks at the design of council services that go beyond straightforward in-house provision. Some of these have been tried and tested over many years; while others are more novel. All of these models require a greater degree of municipal entrepreneurship and openness to new ways of working with a range of partners from the private, public and third sectors. They also require councils to think 'outside the box' in their determination to secure the best services to meet the needs of their communities, solve local problems, support local economic growth and fulfil their leadership role in helping to shape the future of their localities. In this respect, innovation in delivery models should be seen as an opportunity. Taken alongside reforms intended to allow greater freedoms and flexibilities, this should be the starting point for an ongoing, mature conversation between councils and their communities as to what roles, functions and services they want their council to fulfil, discharge and provide.

Key to this conversation is to move beyond sterile debates over the size of budgets and to look instead at the methods of service design and delivery, redesigning them where they do not meet the needs of the customer and citizen. More than a third of respondents to our survey said that there were no services that would have to remain in-house under any circumstances, with a similar number agreeing in our research interviews. This is a startling figure and makes clear that the future landscape of public service delivery is likely to change significantly over the coming decade, with the end result being an increasing diversity of provision. This 'provider-blind' approach is exactly right. **Local authorities should evaluate potential service options on their merits, and avoid making decisions on future provision based on ideology.**

In looking at alternative models of service delivery, and without making presumptions as to whether provision should be in-house or externalised, **we also recommend that councils will need to ensure that they emphasise solutions that serve to promote local economic growth and maximise the social value obtainable through taxpayer spend.**

5.1 Commissioning services externally

Commissioning is a term which is heard with increasing frequency among public sector service providers, although repetition does not necessarily breed familiarity (despite significant overlaps, its conflation with procurement has been

well documented).[12] Although outsourcing of services through commissioning can be locally contentious, it has the potential to secure lower costs of provision, as well as improving the quality of services. And public attitudes are clear: summer 2012 surveys by both the CBI and Populus found that 75% of those surveyed agreed that a diversity of service providers could lead to new ways of doing things (CBI), and did not mind diversity among providers of public services (Populus).[13]

Piecemeal commissioning of services has been going on for many years. Initially such commissioning was somewhat basic and often focused on guaranteed quantums of inputs e.g. hours of work, numbers of staff. Latterly, local authorities have become much smarter about how they commission (see the 2011 Localis report 'Commission Impossible'[14] for plenty more on this), moving away from inputs to a more strategic approach, first identifying local needs and then articulating these in a set of agreed outcomes.

Two-thirds of those who responded to our survey thought that making use of expertise was an important benefit gained by working with external providers, with more efficient, and more effective services as the next two most popular answers. The result is that services are commissioned from a variety of providers, depending on their particular skills and proficiencies. For example, using private sector business process outsourcing companies, who have often been commissioned to provide back office administration and front office customer contact services, and a recent emphasis on commissioning local third sector partners to provide services on behalf of the local authority instead of through grant payments.

When prepended with an adjective, such as 'strategic', 'intelligent' or 'large-scale', the word 'commissioning' can sometimes provoke controversy. But, while perhaps the most contentious of the new models of service delivery, it also has the potential to enable a local authority to achieve transformational change through a clear, strategic vision, and by a fundamental break from the concept and practice of 'one size fits all' provision with a balance between meeting minimum standards while allowing for local variation.

Major commissioning programmes can run into trouble if they do not develop a robust business and political case to support the plans. In the absence of such underpinning, some local authorities that have proposed large-scale commissioning such as Suffolk County Council, with its 'virtual council' proposals and Brighton and Hove City Council have found themselves having to abandon key aspects of their programme. Others, have been more successful in implementing their business transformation programmes, such as North Tyneside Council.

Local authorities cannot commission a service and leave the provider to get on with it. Crucially, in any new service model, including commissioning from external providers, some risk remains ultimately with the council, because it cannot be outsourced, for instance the potential reputational risk to the council caused by mediocre or incompetent performance, or ethically dubious behaviour by the contractor. So they must retain responsibility for monitoring the service to ensure that agreed outcomes are met, service-users are satisfied and potential problems are being reported back and addressed. Any failure to fulfil this assurance role will damage the image of the council in the eyes of local residents and media, who, although they may blame a third party contractor for poor service, will rightly hold the local authority ultimately responsible for appointing the contractor. Outsourcing, if not done well, can also diminish the

12. See Commission Impossible, Localis (2011). This includes DCLG guidance on procurement ("Procurement is the process of acquiring goods, works and services, covering both acquisitions from third parties and from in-house providers. The process spans the whole life-cycle from identification of need, through to end of a services contract or the end of the useful life of an asset") and commissioning ("the process of identifying needs within the population and developing policy direction/ service models and the market to meet those needs in the most appropriate and cost effective way")

13. www.guardian.co.uk/public-leaders-network/2012/jul/11/cbi-acevo-alternative-public-service-provision

14. www.localis.org.uk/images/Localis_commissioning_report_web_FINAL.pdf

role of the councillor, who may feel they have little input or control over the provider, so putting a further distance between the council and the community it serves.

A common critique of the private sector wishing to do business with the public sector is that as organisations with a legal requirement to put shareholder interests first and structured to maximise shareholder profit, they will have difficulty in acclimatising to and internalising the ethos and values of public service. In this context, it is worth noting that only 8% of respondents to our survey had a negative experience with private sector providers (with none at all recording a negative experience with the voluntary sector). However, well over a third of respondents did say that they had found reduced flexibility was a potential problem when working with partners.

Despite the long, broadly successful history of the commissioning model, certain barriers to this approach still exist. Chief amongst them, according to our research, are cumbersome EU procurement regulations, as implemented in the UK by the Public Contracts Regulations 2006. Advertising in the EU's Official Journal (the 'OJ') means that councils can accrue millions of pounds of costs and have to endure a two year timescale in order to go through the requisite processes to select an external partner.

This is also one of the biggest barriers to initial exploration – let alone implementation – of alternative service delivery models such as spin-off public sector mutuals (described below). Despite valiant efforts by the LGA and Cabinet Office to share best practice, the application and interpretation of these regulations continue to cause befuddlement and uncertainty.

It is therefore vital that the Government seizes the opportunity presented by the current EU review of these directives to argue strongly for a truly fundamental reshaping of the regulations so that they are made much simpler, less administratively burdensome, and more flexible. And when the revised directives are agreed, **we urge the Government and LGA to use the 'Commission on Better Commissioning' (see recommendation below) to assist local authorities and other parts of the public sector to understand what they can and cannot do** – and the extent of their independence and freedoms under the new rules.

Times are changing
In recent years, local government has started to move beyond 'traditional' models of outsourcing towards a different type of commissioning: one that is based on better contracts that generate benefits for all parties. This recognises that contractors delivering taxpayer funded services are entitled to make a fair and reasonable profit on any investment they have made or risks that they have taken, provided agreed outcomes and service levels are met or exceeded and efficiencies are delivered.

The new form of commissioning is more sophisticated and highly localist, with each area's approach informed by local considerations and goals. For instance one council may wish to specify that some elements of service provision are sub-contracted to local small and medium sized enterprises (SMEs), and community organisations, while another may wish to stipulate that those bidding for contracts are partnerships between private and voluntary sectors. It is the choice of these goals – along with the outcomes specified in the contract itself, and the subsequent performance of those providing the services – for which elected members will be held accountable at the ballot box.

What do we mean by alternative delivery methods?

There are some council services that have historically not been considered traditional candidates for commissioning out to an external provider. Often these are in areas related to local government's statutory duties, such as enforcement and inspection activities (although there are exceptions such as parking enforcement). Interestingly, some local authorities are now beginning to consider alternatives here as well. For example, North Tyneside Council recently announced preferred bidders for two partnership packages which included services not traditionally delivered by the private sector, such as planning, consumer protection and environmental health. The results of our survey suggest that such arrangements could become more commonplace.

Given the interconnectedness of the public sector, it is also important that external providers do not operate in isolation. For instance, given that the provider of the service will be the 'front door' to the council for many residents, it is crucial that they are fully aware of, and can represent, the council's ambitions for the more effective signposting and management of other streams of work, regardless of whether or not they form part of the services being commissioned – and that such signposting is built into any contractual agreements.

We explore these future commissioning themes in more detail later in the report.

A word on the third sector

Commissioning service provision from third sector organisations has been a recent feature of policy for successive governments. Coined by Hayek[15] as a term to refer to independent, non-private profit making organisations that are driven by a set of values and the desire to further social, environmental, or cultural objectives, the third sector is diverse and heterogeneous. Third sector organisations and activity underpin many communities, as the Big Society concept has recognised and seeks to build on. At a very local level, those grassroots organisations anchored in local communities often play a vital role in building social capital, of both a bridging and bonding nature: creating local networks, confidence and trust that help foster inter- and intra-community cohesion, as well as strengthening local economies and meeting a wide range of social outcomes that fit snugly with councils' strategic visions.

Social enterprise

The term 'social enterprise' is increasingly used to describe those constituted third sector organisations that trade for a social or environmental purpose, but which do not "exist to make a profit for shareholders, exist to make its owners wealthy, rely on volunteering or grants to stay afloat".[16] SEUK believe there to be more than 68,000 social enterprises in the UK, contributing £24 billion to the economy and employing more than one million people.[17]

Social enterprises, in particular those democratically owned and controlled by local people, represent an innovative and sustainable approach to local economic and social regeneration through self-help, enterprise and a recycling of local wealth. They are able to attract under-represented groups into the economy, and are an increasingly attractive proposition for young people who want to do something to achieve social change outside of traditional channels of public service.

A different perspective

The main advantage of third sector organisations as providers is that, due to their closeness to the user and specialised knowledge, they are able to be sufficiently flexible and responsive to ensure that services are tailored to meet each user's personal needs. And, given their less formalised structures,

15. "it is most important for a healthy society that we preserve between the commercial and the governmental sector, a third, independent sector." Law, Legislation and Liberty (1973)

16. www.socialenterprise.org.uk/ uploads/files/2012/05/local_ authority_guide_online.pdf

17. Ibid

service users also appreciate the trust and accessibility of such services. In our Commission Impossible report, we argued that more must be done to allow both third sector organisations and small and medium-sized enterprises to compete for contracts on a level playing field, and suggested that helping to build the capacity of the local third sector would be particularly important in this regard.

But some notable barriers exist that undermine the desire for moving towards greater third sector involvement in public service delivery, some originating within the sector itself. For example some third sector organisations have in the past eschewed working alongside private companies, fearing being used as 'bid candy' to assist the private sector in winning public service tenders. But given that we believe many of the next generation of local public service vehicles could and should entail multi-sector involvement, third sector organisations might need to reach a compromise with and acknowledge the role played by the profit incentive, while maintaining their integrity, mission and core social values. Some respondents to our survey questioned whether this might conflict with their organic nature, and whether smaller organisations that might come together to respond to a specific opportunity or issue may not have the infrastructural capacity to engage with large-scale procurement processes or long-term contracts.

Of course, by its very nature, the third sector is not a universal solution. Local organisations and groups spring up in distinct areas with a specific purpose; they are not in every area, nor should they be. It is also the case that some councils are wary of involving third sector organisations that rely on the networks and dedication of a small number of individuals, whose ongoing involvement cannot be guaranteed.

5.2 Partnering – working strategically together through joint ventures

Strategic partnering by local authorities with other councils and public bodies, the third sector, the private sector or a mix of partners has been a key feature of local government's quest for efficiencies in service design and delivery for over a decade. Unlike PPP or PFI deals which focused largely on capital intensive activity, strategic partnering was initially concerned with the transfer of back office functions and ICT solutions, but since then many other areas of work have been subject to strategic partnering arrangements, such as asset management and property services, streetscene, waste services and transport systems.

Partnership enables local authorities to combine their skills and capacity with those of the partner organisation(s), in particular allowing them to access expertise, capacity or capital that is not available in-house. This can provide the basis for radical business transformation, and scope to secure economies of scale, service redesign and sustained improvements. Strategic partnering can ensure a local authority retains its accountability through governance arrangements which include council representation in managing the partnership, providing joint control over decisions. Gain-share arrangements can also ensure councils benefit financially through recouping both a share of savings and of profits.[18] Partnering in this manner is predicated on genuine collaboration, with each partner recognising the different drivers, ethos and organisational culture of the other parties involved.

A mature relationship

For example, the local government partner must be open to private-sector led innovation and suggestions from a 'critical friend', for instance by demonstrating

18. It is not necessary to form a formal Joint Venture to provide the council with control over decisions and a gain-share – the same agreement that is put in place within a JV to define these arrangements can be included within the contract of an Unincorporated Partnership which has a Partnership Board.

a willingness to try new ways of working to achieve service improvements. At the same time, the private sector partner must have regard for the accountability mechanisms inherent in a council's democratic stewardship role, and be cognisant of its status as a politically-controlled organisation. Indeed, political instability or changes of administration can be as fatal to a strategic partnership and as great a risk to its longevity as a failure to achieve savings or improved levels of performance.

When issues or problems arise, the emphasis in a strategic partnership is on being flexible in recognising and meeting the needs of each of the parties, responding to changes in requirements and on working together to achieve organic, cultural change over the long-term. Partnership arrangements can be costly to establish and time-consuming to make work, and therefore the model is reliant on the long-term commitment of all partners. To be effective, it is essential for such joint ventures to be genuine partnerships, built around a relationship of trust and honesty, with effective mechanisms to share risk and reward that are also able to accommodate tensions that may arise over performance issues.

A specific challenge facing the creation of successful joint ventures is the complexity of synthesising and bringing different work cultures together, such as from the private and public sectors, or through the integration of health and social care. Creating a shared organisational or service ethos by bringing different professions and disciplines together can be difficult, and while councils may aim to eliminate divisions between department and service areas there are often 'professional' silos within organisations that need to be broken down in order to deliver integrated services.

Examples abound of successful strategic partnerships, as they are now a common and accepted feature of the local public sector landscape. Many Strategic Delivery Partnerships are based around a contracting, unincorporated approach between the two organisations, rather than the creation of a new joint venture company.

Media City UK, Salford

Case study: Salford Urban Vision

Salford Council's Urban Vision Joint Venture is a multi-disciplinary public-private partnership formed to help regenerate Salford and deliver improved services. It's a long-term partnership (from 2005 – 2017) with an initial contract value estimated at £250 million, created under a secondment arrangement. The joint venture company is co-owned by Salford City Council (19.9%), Galliford Try (30%) and Capita (50.1%) with 367 staff seconded in to the JV (mostly from the council) with extra staff from the private sector partners to inject commercial leadership and transform the services to address the council's key objectives and priorities: staff development, service quality improvement, increased capacity and savings through increased investment. The risk of realising these objectives was transferred to the private sector partners while the council retained control and the right to share in benefits.

Key features of the JV include:
- Joint governance arrangements, including joint business planning
- Rigorous performance targets and monitoring
- Standardisation of IT infrastructure and management systems
- Combined purchasing power
- Joint bidding arrangements (for funding and new work)
- Joint training and development initiatives

Key benefits delivered include:
- Efficiencies delivering cost savings and allowing the release of resources to focus on growing the JV Company:
  - £58 million of savings for the council over the life of the partnership
  - Income from business growth: turnover increased from £23.6m (2005) to £36.5m (2011) through selling services to more than 230 other public/private sector clients including the Highways Agency, DofE and 120 other councils around the UK
- 133 new jobs created within the joint venture; 400 new jobs created for local people through economic regeneration initiatives
- Staff have received new bonuses and incentive schemes, increased training and continuous professional development programmes
- Improved outcomes for the community through transformational change including:
  - A self-funded LED street-lighting retrofit programme delivering both savings and climate change objectives
  - Improved roads as result of an innovative 'Network Recovery Programme' (generating an additional £22m of funding to invest and reducing maintenance by £19m and claims against the Council for trips by **£2m per annum**)

> – £3 million in capital receipts and £0.5 million per annum reduced accommodation running costs through a strategic asset management programme
> – Additional resources to provide a Members Liaison Service and a Community Development Support Service to keep residents, business, members and wider partners engaged, thus increasing customer satisfaction
> – Development of the innovative Salford Construction Partnership (winner of the 2008 Award 'LGC Public Private Partnership of the Year') improving local skills and training which enabled over £250m of work to be awarded to local contractors (including 25 local SMEs) on the Salford Media City Development
>
> The JV has been cited by DCLG, OGC and the Audit Commission as a successful model that the wider local government community can learn from.

However, despite the success that they can achieve, getting partnerships right is not easy and where strategic partnerships fail, they often generate negative media coverage. Southwest One for example, was set up in 2007 as a joint venture between local councils in Somerset, Avon and Somerset police and IBM. However, following losses by the venture of £31.5 million, Somerset County Council brought some services back in house, illustrating the risks and complexities of such contracts. Of course, because many of the new partnerships involve the secondment or TUPEing of council staff across to new vehicles, should things go seriously wrong it is not too difficult to bring employees back in house.

5.3 Sharing – local cross-border collaboration through shared services

Many local authorities can be accurately described as historical-political bureaucratic constructs, imposed on geographical areas for the sake of administrative and fiscal convenience, with boundaries that have been often artificially and arbitrarily created by the central state. These boundaries, while satisfying the need for a local political unit of civic administration, may do nothing to reflect local perceptions of belonging, identity or civic pride and ownership, let alone provide the most efficient and cost effective way of providing a host of back office and front-line services. By working across borough boundaries and joining up departments, local authorities are able to secure efficiencies of operations in the fashion long deployed by private sector organisations.

Shared services therefore offer a locally-responsive and flexible way of working with neighbouring councils (who too face similar pressures) in order to secure efficiencies, eliminate waste and duplication, and generate economies of scale e.g. in procurement. They can lead to lower transaction costs and reduced overheads as well as allowing for the sharing of expensive skills and know-how. They also provide an opportunity for innovation, heralding a new freedom to redesign services across silos, and the ability to learn from peers and put any spare capacity to use within one council to help another.
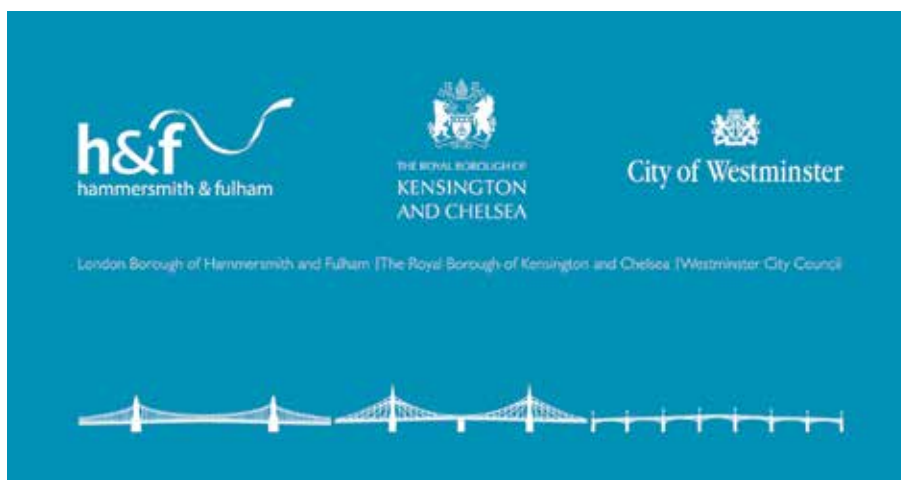
19. http://webarchive. nationalarchives.gov.uk/+/http:/ www.hm-treasury.gov.uk/spending_ sr04_efficiency.htm

While the Gershon Review[19] first identified the need for shared services in central government, they have been a feature of local authority operating models since the local authorities (Goods and Services) Act 1970 enabled councils to enter into agreements with other public sector organisations to secure joint arrangements for the provision of services. The scope of this activity was broadened via public administration provisions contained in the Local Government Act 1972, which enabled inter-public sector trading by local authorities, and allowed councils to supply each other with goods and services under shared services deals.

Shared services have the potential to generate significant savings and efficiencies. The LGA's mapping of local government shared services activity has found that 143 shared service arrangements have been established or are under development, across 219 out of 353 councils in England,[20] saving a total of £165 million.[21] Localis and LGA research with 34 councils who share senior management found that cost savings in some cases ranged from between 20% to 50% higher than initially envisaged,[22] with findings from the House of Commons Public Accounts Committee[23] supporting this.

A key benefit of a shared services approach is that such arrangements are exempt from EU procurement rules.[24] They are therefore also well placed to generate additional revenues by providing services to other public sector organisations, as Essex County Council does in supplying library services to Slough Borough Council. But with the overriding importance of growth, shared services arrangements should be ambitious in driving themselves forward to the next level. The entrepreneurial spirit should be harnessed to help push the appeal of the vehicle beyond the public sector. For example, there is no reason why a shared services vehicle could not start supplying a particular service (e.g. catering) to a couple of local authorities, before broadening its ambit – and its service offer – to the wider public sector, and then move on to supplying the private sector.

Another hidden benefit of sharing services across councils is the 'averaging up' effect, whereby best practice is shared and the most effective methods are replicated across all participating authorities. This effect is enhanced by the friendly rivalry between portfolio holders, all of whom wish to have the best performing team. Of course, some authorities are likely to have strengths in different service areas, hence the effect of improving overall services across the shared area.

London's Tri-borough

20. www.local.gov.uk/web/guest/productivity/-/journal_content/56/10171/3511353/ARTICLE-TEMPLATE

21. www.local.gov.uk/c/document_library/get_file?uuid=105edabf-9072-49f5-94d9-f6065cf69842&groupId=10171

22. INSERT REF

23. www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/463/46302.htm

24. Known as Teckal exempt (after the EU case of Teckal, C-107/98) which provides exemption on the same basis as in-house provision

What do we mean by alternative delivery methods?

> ## Case study: The Tri-borough
>
> One of the most radical examples of shared services is the Tri-borough arrangements for sharing senior management and back office functions as well as professional expertise between Kensington and Chelsea, Hammersmith and Fulham and Westminster Councils, which aim to save £300 million over ten years through reduced overheads and management costs, with 175 senior posts cut. With combined annual spending budgets of £1.5 billion, the three councils have been working together since February 2011, with a first wave of combined borough services including Human Resources, building control and facilities management, as well as the RB Kensington and Chelsea and Hammersmith and Fulham sharing a Chief Executive. A first year progress report[25] found that the sharing of Children's Services, Libraries and Adult Social Care had seen a 45% reduction in senior and middle management posts across these functions.
>
> In March 2012 the Tri-borough announced that as well as meeting the intermediate saving targets of £7.7 million this year and £33.4 million by 2014/15, savings from the new arrangements could reach £40 million a year by 2015/16, up from an earlier forecast of £33 million. Tri-borough arrangements are pioneering support for troubled families across the three boroughs, pooling knowledge to help address underlying problems and anti-social behaviour issues, and offer education, training or employment opportunities. It is estimated that with every £1 spent on troubled families, £2.10 is saved further down the line in avoided costs.

As with all the other models discussed here, sharing services is by no means a universal solution. There is, for example, less logic for sharing between more geographically disparate county councils than there is for district councils and metropolitan boroughs. Shared services may be perceived by some as a precursor to local government re-organisation, and although this is not a prospect within the current Parliament it may come up in the medium to longer term, as part of a future rationalisation of the local public sector infrastructure (see Community Budgets).

There can also be a number of reasons why a move to shared service arrangements is easier to propose than to agree. Examples from our conversations with local authority leaders and chief executives include, for instance, shared service proposals failing because politicians are unable to agree which part of a service delivery mechanism sits in which borough, and potential deals floundering on an inability to agree a shared vision. Ultimately, shared service arrangements are reliant on well-developed, mature relationships between senior elected members, built on a foundation of trust.

A key aspect of the Tri-borough arrangements was to dispel any fears that one authority might be 'taking over' another or that it was the first step towards a merger. This reassurance was achieved via a 'sovereignty guarantee' that ring-fences each individual authority's own local accountability, budgets, service specification and decision and policy-making powers, so ensuring that the specific needs of each council are dealt with equitably. It is important to

25. www.rbkc.gov.uk/pdf/one_year_on_tri_borough_2012.pdf

emphasise that such arrangements should not affect a council's relationship with its citizens. Services should be as locally accountable and transparent as they were when delivered by separate authorities.

5.4 Co-operative Councils – adopting new values and principles

The Co-operative Councils Network is an initiative developed in the last few years by a number of Labour-controlled local authorities and The Co-operative Party, which focuses on redesigning the way a council works by incorporating a co-operative ethos into its relationships with its staff, communities, service users and providers. Presented as an alternative to traditional notions of outsourcing in terms of public service delivery, and building on and going beyond the Big Society emphasis on voluntarism, the Co-operative Council approach seeks to establish a new way of working that, in the words of Oldham Council, enables "residents and service users to become active participants rather than passive recipients of public services".[26] While employee-owned mutual spin-offs (discussed below) are one possible element of the Co-operative Council model, they are not its determining characteristic.

To understand the Co-op concept it is essential to have an understanding of what co-operatives are and how and why they operate. Co-ops are mutual enterprises that take a variety of legal forms and governance structures, but which must subscribe to a codified set of values and principles, as agreed by the International Co-operative Alliance's Statement of Co-operative Identity. This defines a co-operative as "an autonomous association of people united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise". It also sets out the values and principles by which a co-operative should be run, being 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".

These seven principles are the guidelines by which co-operatives put their values into practice:

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation amongst co-operatives
7. Concern for community

The current position of co-ops

Co-ops are active in all sectors of the UK and global economy. In 2011, there were 5,933 co-ops in the UK, with 13.5 million members and a turnover of £35.6 billion, across a variety of markets including public services, education and training, health and social care and leisure.[27] For example, there are 242 co-op trust or academy schools, benefitting from various freedoms but with governance structures that enable parents, governors, staff, students and the local community to own and control how they are run. Social housing is another potential growth area for co-operative approaches: Rochdale Council for example has created the largest housing mutual in the country following the transfer of 13,700 homes to Rochdale Boroughwide Housing, the country's first hybrid tenant and employee co-owned mutual.

26. www.publications.parliament.uk/
pa/cm201213/cmselect/cmcomloc/
writev/112/contents.htm

27. www.uk.copp/economy2012

What do we mean by alternative delivery methods?

Lambeth, the first Co-operative Council, has argued that its approach is 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". In incorporating the co-op approach, it is moving away from a model where services are designed around organisational structures and council provider interests towards enabling local people to identify their own needs and help design solutions to meet them. Lambeth is doing this through four main strands of work: Co-operative Leadership, by getting councillors to work with residents and community organisations on local improvements; community-led commissioning, by involving communities through a co-partnership approach at the start of the commissioning process; incentives to facilitate resident involvement; and different models of public service delivery, such as mutuals.

For example, through Young Lambeth Co-operative, its youth services trust, any resident will be able to become a member, with service provision and activity determined and tailored to the neighbourhood or estate level, thus leveraging local knowledge and insight, and commissioning external providers where necessary. Lambeth is also looking at co-production for its library service, alongside achieving savings in its library budget of £750,000 over two years.

Criticism of the Co-op council concept centres on whether it will actually result in a significant change in how a council operates or whether it is mostly used as a branding or marketing exercise – what Lambeth UNISON has called the 'Cop-out Council' approach and which it has suggested is being used as an excuse to cut jobs, services and shift responsibility to volunteers. Other critics have focused on a perceived lack of progress in achieving co-operative spin-offs from Co-op councils, (which in itself is a time-consuming and resource intensive process – see section on mutuals) although this is not the sole focus of the co-op model. It is certainly fair to say that it is relatively early days for Co-operative councils and, as yet, there is very little by way of hard data to judge the success of the model.

Oldham Council's 'Love Where You Live' litter pick

Case study: Oldham Council

Oldham started its journey to becoming a Co-op council in 2011 with a recognition that both the borough and the council were facing serious problems. Still recovering from the riots of 2001, Oldham was faced with a 50% contraction of the area's manufacturing base, as well as a reputation for being one of the worst-performing councils in the country, albeit one that had begun to turn around under its new chief executive. The incoming council leader Jim McMahon decided to signal a break with the traditional top-down, centralised council model. Attempting to overcome party political rivalries and working with other party leaders, the first steps towards change included mandatory local leadership training for borough councillors in order to equip them with the skills to act as community advocates and champions, and ensure that they could play a critical role in articulating community aspirations.

Oldham's vision for a Co-op council seeks to fundamentally reshape the council's relationship with its communities by helping them to become more resilient and to assume more self-responsibility for council services through co-production – a move towards treating people as "active participants" rather than "passive recipients", bolstered by improved procurement and commissioning. It also aims to reduce demand for services over the long-term, by encouraging behaviour change and self-help initiatives, such as through a 'Love Where You Live' campaign to inculcate positive behavioural choices, civic pride and greater levels of community activism.

Embracing a broad spectrum of co-operative working, the model ensures residents and service users are actively involved in decision making to service design and delivery through co-production (leasehold of a community centre for a peppercorn rent in exchange for local community delivery of family activities and services) and co-operative enterprises (e.g. proposals for providing Adult Social Care through a co-op-local authority trading company hybrid).

By adopting an internal 'business unit' outlook that allows staff to enjoy greater freedom and flexibility to innovate, and the devolution of council spend and 500 frontline staff to six defined localities, the aim to is help build consortia of hyper-local community organisations with the ability to share skills, capacity and resources that could ultimately help them bid for public service contracts, with pilots for community-run services including allotments and community facilities. A Community Dividend Fund will encourage public and private partners to contribute finance, resources and staff time to encourage greater volunteering and activity in the community.

One of the core themes of this report is that the future of local public service delivery will, we believe, necessitate a new relationship between the citizen and the council. Councils will no longer be the provider of all services, and citizens will have to be more realistic in their expectations of what is provided. The co-operative movement is one way for citizens to engage and have their

say in how their services are designed and delivered, prioritising what they think is most important locally and decommissioning services which they feel are not as pressing.

5.5 A mutual future – making workers the boss

Employee-owned mutual social enterprises have a long history of providing public services, particularly in the health and social care sector. Enabling more employees to take control of – or 'spin-off'– their workplaces through employee ownership mutuals is a key plank of the Government's reform programme for public services. The Government has set a goal of having one in five public sector employees working in a public service mutual, defined by the Cabinet Office as "an organisation that has left the public sector to provide public services (under contract) and in which employee control plays a significant role in its operation", by 2015.

Alongside the creation of the Mutuals Taskforce, which established the case for public service mutuals, Government legislated to facilitate employees' ability to request or bid to take over the services they deliver through the Rights to Provide and also by the Community Right to Challenge, which includes the opportunity for two or more employees to bid to run a public service as an employee-owned mutual. Of the 21 pathfinder mutuals announced by the Government in 2012, six are in local authorities. Over two thirds of respondents to our survey declined to comment on their involvement with mutuals, suggesting that experience of this was currently limited in local government.

There is no set definition of what constitutes a mutual, but they all share a range of features regardless of their corporate form or governance arrangements:

- All mutual organisations are established for a shared community purpose
- They are all owned collectively by their members
- They all operate democratic voting systems, with each member valued equally on a one member, one vote basis

A variety of models

Employee-led mutuals are just one type of employee-owned business (EOB) which, according to the Employee Ownership Association, across the whole UK economy are estimated to be worth £25 billion annually, or around 2% of GDP.[28] Research into the performance of EOBs by Cass Business School found that they generally outperform non-EOBs, showing a greater level of resilience and stability over the business cycle, together with higher rates of employment creation, growth in sales and value added per employee. Employee ownership was also found to be of particular benefit to SMEs and knowledge and skills-intensive industries.

Key to the success of EOBs are the advantages conferred by stakeholder rather than shareholder management, particularly with regards to prioritising long-term sustainability over short-term profit-seeking. In the words of Charlie Mayfield, Chairman of the John Lewis Partnership, some of the model's strengths are "a happier workforce, more accountable management, a closer alignment of risk and reward, a fairer distribution of profit – [this] can help engender a culture of responsibility and trust in the workplace and beyond",[29] characteristics that he believes are vital to a thriving economy and better society.

The Mutuals Taskforce identified both intrinsic and instrumental benefits from greater employee engagement in public service delivery. Intrinsic benefits

28. www.employeeownership.co.uk/publications/model-growth-do-employee-owned-businesses-deliver-sustainable-performance/

29. ibid

relate to the employees themselves, in terms of lower absenteeism and levels of staff turnover, greater scope for autonomy and innovation and better staff performance. Instrumental benefits are the result of intrinsic benefits, and help to create a virtuous circle of engagement with greater pride and loyalty to the organisation, a 'can-do' attitude and behaviour, and improved outcomes through better organisational performance. And, as with the shared service model, there is nothing to stop a mutual organisation beginning as a small part of an individual organisation, before growing to take on other services and move into new sectors.

Through their unique structures and ethos, their emphasis on member involvement and by building accountability mechanisms through user and employee participation, EOBs offer a business proposition that is different from public and private sector providers, and directly increases the diversity of ownership models in the economy. Similar models have proved successful elsewhere such as in Italy, where over 7,000 social co-operatives provide a range of key social services: factors for success include a clearly defined legal structure and pro-active local authority procurement policies.[30]

However, a particular risk inherent in this model is its potential dominance by 'producer interest', which can lead to possible conflict of interests and a failure to provide a service in the best interests of the consumer. One solution to this is the development of hybrid, multi-stakeholder mutuals, which involve representation from employees as well as service users and indeed members of the local community (see Greenwich Leisure Limited case study). Other hybrid models have been developed to provide public services, such as Circle Healthcare (an employee-private sector venture), although some of these have been criticised as using quasi-mutual structures and diluting the benefits of mutuality.

A particular ethos

Mutuality is a concept that sits comfortably at the heart of local government. Indeed, conceptually it is possible to think of a local council as being a citizen and taxpayer owned mutual, owned and democratically directed by a local population to procure and arrange the delivery of tailored, local services. Considerable scope exists for greater mutual public service provision, building on successes achieved in education, housing, leisure and social care. However, despite their potential benefits, public sector employee mutuals face significant barriers to their growth and take-up, in particular relating to a lack of awareness, knowledge and clarity of understanding by public sector commissioners, council managers and elected members, not only of their existence and how they work, but also of their legal and governance structures. Graeme Nuttall's report on employee ownership[31] highlighted this lack of understanding and capacity to pursue this agenda more effectively, as well as barriers relating to actual and perceived legal, tax and regulatory complexities.

It must also be recognised that developing employee-owned and multi-stakeholder mutuals can involve upfront costs, and resourcing from central or local government may be necessary before they are able to fully stand on their feet. As such, considerable local political appetite is needed in pursuing a model that requires considerable upfront managerial support and investment to ensure its sustainability, particularly in a time of austerity with a need to realise short-term savings.

As well as financial support, the creation of mutuals must be based on genuine employee enthusiasm for the model, it must be a bottom-up choice and not a top-down imposition.

30. www.uk.coop/sites/default/files/docs/international_public_service_mutuals.pdf

31. www.bis.gov.uk/assets/biscore/business-law/docs/s/12-933-sharing-success-nuttall-review-employee-ownership.pdf <http://www.bis.gov.uk/assets/biscore/business-law/docs/s/12-933-sharing-success-nuttall-review-employee-ownership.pdf

What do we mean by alternative delivery methods?

Mutuals face very particular regulatory and financial barriers to their growth, particularly when looking at the creation of employee mutuals. As non-charitable entities trading above a certain threshold, they will also incur an obligation to charge VAT on their activities, unlike in-house delivery. When mutual spin-offs become sustainable or when initial contracts end, they may find themselves facing open market competition. This will not prove problematic for successful organisations, but evidence from the earlier wave of employee-owned spin-offs in the bus industry illustrated their vulnerability to take-over and demutualisation. As such, staff may be reluctant to embrace mutuality as an option for fear of losing subsequent contracts once the initial contracting period has expired. Issues such as TUPE and pensions can also serve to act as a real stumbling block to progress.

Breaking down the barriers to mutual ownership
In support of the Government's objective of greater levels of employee ownership – and mutual and co-operative provision of public services – we echo the Nuttall report and Co-operative UK in **recommending that the Government moves to act to reduce the perceived and actual complexity of employee ownership. This should involve the development of clear, simplified 'off the shelf' and 'ready to go' co-operative and mutual models** that cover legal, tax, procurement and other regulatory issues, catering to user-led and multi-stakeholder hybrid models as well as employee-owned mutuals. **We also urge the Government to prioritise the creation of long-term transition arrangements and the temporary exemption from EU procurement rules for mutuals**, enabling them to become established before being subject to full competition.

Queen Elizabeth Olympic Park
Aquatic Centre

Case study: Greenwich Leisure Limited

Greenwich Leisure or GLL is arguably Britain's most successful social enterprise, and was one of the first public sector spin-offs when it was formed in 1993 out of Greenwich Council's leisure services department. With a turnover of £80 million it manages, in partnership with local authorities, over 100 leisure centres across London, the South East and in York employing over 4000 staff. It is also the operating partner for the Multi-Use Arena (Copper Box) and Aquatics Centre at the Queen Elizabeth Olympic Park, as well as taking responsibility in April 2012 for the Royal Borough of Greenwich's Library and Information Service. Due to its experience as an originator of the public sector mutual model, GLL is a mentor in the Government's Pathfinder Mutuals programme.

When Greenwich Council was struggling to set a legal budget in 1993 and proposing a 30% cut in funding for its leisure centres, it realised that, by transferring leisure services to an autonomous and independent non-profit distributing entity with exempt charitable status, such an entity would not be eligible to pay business rates, so helping to deliver the necessary savings. With the introduction of new working conditions and greater employee flexibility, staff attitudes changed through a greater sense of engagement with the organisation, increased pride in service delivery and improvements to customer services.

GLL, operating through its customer-facing brand 'Better', illustrates the initial difficulties in categorising such entities. Described variously as a leisure trust, employee-owned co-operative and social enterprise, GLL is structured as an Industrial and Provident Society for the benefit of the community, with charitable status. All permanent members of staff are eligible to join the society on payment of a one-off £25 membership fee and to play a role in its management through election to the board of trustees. While staff-led and owned, with employees having a majority of positions on the board, GLL also has a multi-stakeholder governance structure with representation from a number of interested parties, including local authorities, a trade union, and customers.

Through its success, and the replication of its model by other local authorities across the UK, GLL has demonstrated that an employee-owned organisation, with wider accountabilities and an acute awareness of its social mission, can balance the need to provide competitive, customer-focused and responsive services with a public service ethos that invests in local communities. All profits are reinvested back into the services it provides, paying for facilities upgrades and staff training.

6. What novel methods of service delivery are being developed/ implemented?

6.1 Trading and enterprising councils – building commercial acumen

Local authorities have long had some degree of freedom to charge for discretionary services in order to recover costs, to trade within the wider public sector, and to provide commercial services. But rediscovering a spirit of municipal enterprise through trading activity is fast emerging as a favoured option for many councils in their quest to generate additional income and provide tailored, locally-appropriate services. Building on their local expertise, experience and capacity, councils are able to extend their current service provision by selling their services to other parts of the public sector (including other councils) or to private entities. Profits or surpluses made through such trading activity can then be redirected or invested to meet other local authority objectives and purposes. Where adopted, this sort of municipal entrepreneurship also fits well with the pan-governmental need to support and encourage economic growth.

Under the Local Government Act 2003 local authorities were granted the power to trade commercially in the wider market, providing services for profit. This freedom was bolstered by the Localism Act 2011 with its far-reaching provisions of a General Power of Competence (GPOC) which provides that "A local authority has power to do anything that individuals generally might do".[32] Although by law local authorities are prohibited from trading with customers to whom they have a statutory duty to provide a service, under the GPOC enterprising local authorities can trade in markets that exist outwith their statutory functions, anywhere in the UK and beyond. This opens up considerable scope for councils to adopt a more enterprising approach and build on their knowledge of local markets and community needs to fashion new services and areas of operation, complimentary to traditional areas of activity. The income derived from trading can be reinvested back into council operations and used to pursue wider public goods and outcomes, or distributed to taxpayers in the form of lower council tax levels.

32. www.localpartnerships.org.uk/ userfiles/file/Publications/Enterprising_ councils.pdf

Enterprising councils
Local authority trading activity must be conducted through a 'company' wholly owned by the council, with the council producing and approving a business case prior to trading. Research by the Association for Public Service Excellence (APSE)[33] has highlighted how local authorities are developing commercial acumen and entrepreneurship, citing examples such as Shropshire County Council's catering and cleaning operation. This supplies both primary and secondary schools in the county as well as contracting with schools and further education colleges in Worcestershire, Herefordshire and North Wales, generating £3.2 million in external contracts out of an annual turnover of £10.2 million.

Shropshire is set to take its approach to trading a step further, by transferring 1,700 of its 6,000 employees, representing £36 million of annual service expenditure, to a new, wholly owned trading company, which will be led by a managing director with councillors and council officers among the non-executive directors. The council's cabinet will "consider, negotiate and approve" the company's annual business plan, thus ensuring democratic accountability over service provision.

Another example is Essex Council's creation of the first local authority trading company to deliver adult social care services in the country. Essex Cares provides community and home support to residents across the county, as well as revenue-generating discretionary services. When the company was formed in 2009 the council transferred 850 staff to the new enterprise, which in its first year of trading met its efficiency savings. In 2010-11 it delivered services to over 115,000 people, achieving a profit of £3.5 million which was returned to the council in the form of a dividend payment. Essex Cares has also innovated to improve outcomes for clients, for instance through reducing the number of readmissions to hospital, which helps to explain how it has earned an astonishing 99% satisfaction rating from its users.

However, enterprising councils considering a trading approach need to address significant legal requirements, relating to company or industrial and provident society law, state aid and TUPE regulations. Most importantly, council-owned trading companies are not Teckal exempt, and must meet the requirements of competition law, as well as financial implications relating to tax and VAT.

The nature of local government – in particular, the underpinning of democratic accountability that is the lodestar of local government – can make the creation of a trading vehicle a complicated process. Unlike private enterprise that is simply driven by the profit motive, local authorities operate within a democratic framework and are charged with achieving a diverse and complex set of outcomes, with the direction of travel set by politicians who are elected to implement a manifesto. Local authorities are accountable for what they do to central government and to their communities, and are subject to higher levels of scrutiny than equivalent organisations in the private sector – quite rightly, given that they are deciding how to allocate and spend taxpayers' money. The result is that decision-making can be considerably slower (particularly over sign-offs for spending) than in other sectors which, in turn, may well prevent local authority managers from acting swiftly to take advantage of commercial opportunities that present themselves.

The GPOC is intended to assist with this entrepreneurship by clearing the way for local authorities, working through wholly-owned trading entities or in partnership with local communities and social enterprises, to provide community retail outlets and pubs, post offices, renewable energy schemes, broadband facilities, savings

33. See APSE (2012), Municipal Entrepreneurship,

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and loans – the list is limited only by the imagination and appetite for risk of local authority officers and members and the communities in which they operate.

Of course the success of new local authority trading companies and service delivery vehicles will depend on their ability to win market share by appealing to customer needs and meeting performance expectations. This in turn will require councils to have available to them staff with a range of commercial, sales and marketing skills. Such capacity may be developed in-house (though some local authority staff may not be entirely comfortable adopting such roles) or it may be provided on an ad hoc basis by private sector or social enterprise suppliers. Also, many councillors have a commercial background and can assist council staff in adopting a more entrepreneurial outlook.

There is the potential for a 'new generation' of strategic partnerships between local authorities and private sector companies which, in addition to delivering service improvement and efficiencies, will also see councils leveraging their private sector partners' commercial and business acumen to generate additional income for the council. Furthermore, there is nothing to stop third sector providers playing a part in such consortia where they can bring added value. Of course, adopting a commercial approach involves the council's exposure to additional risk and the possibility of incurring losses, so proper planning and research is vital if the new company is to achieve the objectives in its business plan. Local authorities will also need to think more carefully about performance culture, as employees are not currently incentivised through firm financial targets as is the case in the private sector.

6.2 Changing the behaviour of citizens – a nudge in the right direction

Another method attracting interest is behavioural economics, which looks to challenge economic orthodoxy, particularly in the assumptions made and models used in delivering public services. Popularised as nudge theory, behavioural economics explores human behaviour through how decisions are presented to people by a 'choice architecture' that inadvertently influences how choices are made (e.g. as expressed through a bias towards the status quo, or by succumbing to peer group pressure). This developing field has implications for public service design, particularly in moving away from functional services that supply a palliative or remedial solution, towards more effective solutions that focus on preventative measures and influencing people's behaviour to help them make positive, beneficial choices.

The Cabinet Office Behavioural Insights Team was set up in July 2010 to investigate how applying nudge theory through the design of public service choice architecture could influence behaviours, looking at a range of policy areas including public health. The Team's first annual report[34] found that generating behavioural insights had the potential to both save money and secure improved outcomes. Early examples of successful implementation include the introduction of 'required consent' for donor registration through the DVLA website: it is predicted that it will double the number of voluntary registrations over time to around 50% (a million people just over the life of the Parliament); and trials of simple behavioural approaches that can reduce no-shows for GP appointments by around a third.

Major savings
It has been suggested that local authorities could use behavioural change to make savings of up to £5 billion, in particular where such new behaviour

34. www.cabinetoffice.gov.uk/sites/ default/files/resources/Behaviour-Change-Insight-Team-Annual-Update_ acc.pdf

can lead to reduced demand from residents for services such as waste and recycling, special educational needs, and children's services.[35] This approach is predicated on the belief that "citizens behave the way they do because the public sector behaves the way it does" and that, over time, through changing expectations, participation and reducing need, local authorities will be able to establish a new relationship with their residents.

The same research found widespread support for using nudge techniques, with 98% of local authority executives believing that they could reduce demand by changing behaviour, and 65% thinking it represented the "single greatest opportunity" to reduce costs. However implementation will not be simple. In particular, it was suggested that residents are often mistrustful of councils' motives, which could undermine the effectiveness of the council as a messenger for such schemes. In a previous Localis report[36] we recommended that two-way communication processes with residents would be important here, as well as highlighting the idea of using residents themselves as messengers. Elected members could also play a bigger role in helping to convey messages to their electorates. However, promoting behavioural change through the use of dis-benefits that lower the demand for services has the potential to provoke resistance, e.g. for 'pay as you throw' bin collections.

Another complication is that behavioural change is not something that happens overnight. In the absence of direct state action and enforcement, deep-seated behaviours stemming from wider environmental or cultural factors can be hard to shift. And even when prohibitions on certain activity are in place – such as driving when intoxicated or while using a mobile handset – behavioural change can take considerable time. State action is often required, however, in order to establish the social norm in the first place, and as a 'soft' tool of public policy, nudge theory is limited precisely through its inability to compel behaviour. It can be seen as complimentary to and used as a component part of mainstream models of service, rather than being used to exit or draw back from provision.

6.3 New payment mechanisms and preventative measures

The move to a preventative early intervention agenda that seeks to tackle the causes of failure and the origins of social problems, rather than belatedly responding to the manifestations of such problems at far greater cost further down the line, is an area in which local authorities and their partners are increasingly keen to work together. This method of smarter, more targeted activity is considered by some to be long-overdue (see the reports by the Labour MP Graham Allen, commissioned by David Cameron) and is a key example of how public services can benefit from a more holistic approach – doing things *with* residents, rather than *to* them. However it would be remiss to suggest that establishing successful early intervention programmes is easy. Working out the optimal point at which to intervene, in what way, and what the results (quantitative and qualitative) of such intervention are likely to be is far from simple. So, while there is much work going on across the public sector, it remains a policy area in development.

Linked to the idea of early intervention is the concept of payment by results – and financial tools that allow for such investment to be funded, such as Social Investment Bonds (SIBs). By focusing payments on the achievement of positive outcomes (a greater number of those receiving care able to remain living at home) rather than the magnitude of inputs (hours of care delivered, number of customers served), providers are incentivised to create innovative responses

35. www.impower.co.uk/public/upload/fichiers/111/impowerchangingthegame.pdf
36. www.localis.org.uk/images/LOC_Big_Green_Society_Report_WEBfinal.pdf

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and trial ways of working that can lead to interventions that outperform current levels of service.

Of course, clearly defining outcomes and being able to measure the gains associated with them, as well as being able to accurately quantify results through appropriate metrics, are all crucial to successful payment by results (PBR) mechanisms.

The £440 million funding for the Government's Troubled Families Initiative which is aimed at achieving improved outcomes for 120,000 of the country's most chaotic families is to be delivered through a payment by results agreement reached with local authorities. Receiving 80% of the payment upfront as an attachment fee, local authorities will only receive the remaining 20% if they achieve outcomes agreed with the Government, such as getting people into work. The PBR percentage of payment increases to 40% in year 2 and 60% in year 3 of the programme. The sustainability of agendas tackled through short-term PBR approaches, such as troubled families, is a potential issue, with a question of whether to embed this into the 'day job' once funding has been removed. Either a clear exit strategy will be needed – or as the Community Budgets pilots indicate, such preventative approaches could be successfully mainstreamed.

Another potential issue is that the growth in payment by results contracts in a locality needs to be carefully monitored to ensure that public sector bodies working in silos do not unilaterally pursue payment by results contracts that focus on conflicting outcomes, or deploy overlapping interventions targeted at similar problems or user groups, potentially leading to duplication, waste and an inability to assign outcomes to cause. This strengthens the argument for joint commissioning within a locality, and greater inter-public sector collaboration based on a shared strategic approach to problem solving. See below for a discussion of community budgets which will allow for the possibility of a pan-public sector approach to early intervention strategies.

Social Impact Bonds

Social Impact Bonds (SIBs) have sought to overcome financial requirements of some early intervention programmes by providing upfront capital to potential service providers via risk investment from private, philanthropic, charitable or public investors. Services and interventions are commissioned via the SIB, with investor returns aligned with social outcomes via payments triggered on the achievement of specified outcomes. So if the interventions successfully hit their outcome targets, investors get their money back, along with a return on their investment. Following the world's first SIB aimed at reducing re-offending behaviour among ex-prisoners released from Peterborough prison, the model has won support from third sector organisations, investors and politicians across the spectrum, although it must be recognised this particular initiative has had considerable support from central government through the Ministry of Justice, leading to questions as to whether other SIBs would be affordable without such upfront resourcing.

Under the six year Peterborough SIB,[37] £5 million of investment funding in a bond backed by a number of charitable foundations and the Big Lottery Fund has been used by the SIB body as an intermediary to commission the St Giles Trust charity to work with 3,000 short-term prisoners on intensive interventions in prison and upon release into the community (who would not receive any statutory supervision by the Probation Service). Outcome payments are linked to reoffending rates across the cohort, and should reconviction rates be reduced

37. www.justice.gov.uk/downloads/ publications/research-and-analysis/ moj-research/peterborough-social-impact-bond-assessment.pdf

by 10% across the identified cohort, investors will receive an annual return of 7.5%, with a cap at 13%.

A SIB-like approach is being used by DCLG and the Greater London Authority in its Rough Sleepers SIB, aiming to bring members of a chronic cohort of around 700 rough sleepers in from the streets and help prevent them from returning to a street lifestyle. The costs of street homelessness to public bodies across London are considerable, and current work by various agencies has failed to bring members of this particular cohort in off the streets on a sustainable basis. Current strategies often deal with the symptoms and repercussions of rough sleeping, such as accessing emergency healthcare and failure to treat clients with multiple presenting problems such as alcohol, drug and mental health issues. The £5 million on offer from DCLG will be made available by payment by results contracts for improved outcomes achieved under the SIB, with social investors providing up-front investment to four contracted providers to deliver housing, employment and health outcomes.

SIBs represent a sophisticated evolution of the payment by results mechanism but can also be complicated, involving numerous contractual agreements. Crucially, it can be very difficult to develop appropriate outcome metrics that can be firmly attributed to specific interventions. The upshot is that SIBs have not yet established themselves as a widely used tool, though with the number of organisations currently working on similar schemes, hopefully it will not be long before they cease to be a marginal option. In New York City, for example, a four year $9.6 million SIB funded by Goldman Sachs, the first SIB in the USA, aims to reduce re-incarceration rates among teenage inmates of Rikers Island jail through cognitive behavioural therapy.[38]

6.4 Communities taking control

Many local community organisations have greater knowledge, expertise and experience of the solutions to specific local problems in their neighbourhoods than public sector agencies. Although communities assuming greater responsibility, ownership and control of services and assets in their locality can bring considerable benefits, it can also pose major risks and involve considerable work in overcoming legal and financial hurdles.

Co-production

Closer, more meaningful engagement with local citizens and communities, in the form of giving them influence over a council's decision making process, has been echoing around the municipal landscape for decades. But now more than ever, local authorities are working with their communities to promote and strengthen local civic activity, and foster a supportive environment that is conducive to self-help and self-responsibility. For not only can co-production and community-led commissioning lead to efficiencies and greater local responsiveness in service delivery but it can also enable services perceived as failing to be decommissioned and replaced with more appropriate provision.

Allowing service users and communities to help design and deliver the services they receive can improve outcomes and deliver financial savings. For example, Turning Point's 'Connected Care' model of integrated health and wellbeing services involves a community-led audit of local need, service redesign and cost-benefit analysis as a part of a business case for change, all supported by commissioners and public sector professionals. Modelling of such an 'Experts by Experience' model of service redesign in Basildon by the LSE[39] indicates that for every £1 spent, savings of £4.44 could be achieved as a result of reduced

38. The Economist, August 18th 2012

39. http://eprints.lse.ac.uk/29956/1/Internet_Use_and_Opinion_Formation_in_Countries_with_Different_ICT_Contexts.pdf

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demand on services, which when taking into account the value of quality of life improvements rises to £14.07. There are plenty more examples of successful community co-design and involvement in delivery in our 2010 report, Total Neighbourhood.[40]

Community assets

Greater community involvement in service delivery can involve a group of local residents agreeing to mow grass verges or tend flowerbeds in a locality. Or it can be more substantial, for instance in new arrangements for community ownership and control of land and housing through Community Land Trusts, and through the creation of new Free Schools.

Ownership of an asset can instil confidence and stability in the organisation involved and wider community, and successive central government policy has sought to promote community ownership and control as a means of stimulating civic and community enterprise. The Government's approach towards community-asset ownership will be bolstered through the coalition's Community Right to Bid[41] and Community Right to Challenge.[42] The Community Right to Bid will be supported through a £19 million Community Ownership of Assets Programme, helping communities to access support in making a bid for iconic and intrinsic community assets, facilities and infrastructure, while the Community Right to Challenge is supported by an £11.5 million programme to provide similar help to support and develop skills to be able to apply to run local services.

The £30 million Community Asset Transfer Programme (2008-2012) highlighted some of the opportunities and barriers to the asset transfer process. The programme's evaluation[43] found that 36 out of the 38 projects selected for the programme (out of a longlist of 220) had completed the transfer, and were making good progress towards the programme's community empowerment objectives and outcomes that sought to provide greater security for local community organisations, improve services and strengthen partnership working with local authorities. However, as well as pointing to the cost of asset transfer (on average over £1 million per asset), it also found the process itself to be a "complex mix of legal, design, procurement and partnership issues" that proved challenging to the community organisations in question. While the skills and community capacity required may suggest that this agenda attracts predominantly more affluent communities, it should be noted that 24 of the 38 projects of the Community Asset Transfer Programme are located in the 20% most deprived areas nationally.

When considering asset transfer to community groups, complete divestment may not be necessary or recommended; transfers on a long lease may be preferable to those on a freehold basis. This will require councils to be prepared to dilute claims of ownership and adjust to sometimes being a junior or silent partner. However, a noticeable drawback of community asset transfer is that such transfers can conflict with the onus on a local authority to maximise capital receipts from property deals as part of an assessment management strategy, particularly where a sale on the open market may bring a much needed cash windfall and release a site for new housing development. This must be balanced against wider outcomes that a council can achieve through divestment to the local community.

Getting communities involved

We support the Government's desire to encourage greater devolution to communities at the neighbourhood level, but it should be stressed that this is not an easy or cost-free option for future services. Some communities may not have the sufficient levels of capacity to effectively steward and manage local services

or operate with robust governance and accountability arrangements. The amount of time and effort involved and skills and knowledge required is considerable, and should not be underestimated. Enabling communities to successfully take over and manage local assets and services therefore requires considerable levels of support, advice, and capacity-building work. It also requires local authorities to accept, and for elected members to be happy with, the devolution of resources and decision-making, and the lack of control that pursuing this agenda entails. Such challenges are obviously not insurmountable, though it is important that they are recognised, and that measures are put in place to provide sufficient investment and support to help local communities play their role.

Active participants

As models of provision that put greater demands on communities to play a more active, participative role in service design and delivery take shape, it is inevitable that some will question the degree of enthusiasm from communities themselves to become more involved. Volunteering is a valuable resource that can be harnessed by local authorities who respect the independence and autonomy of community organisations. However, it is not something that can be relied upon to meet top-down priorities or services. Instances where volunteering has initially been successful in responding to the community empowerment reform agenda and public spending squeeze have arisen out of grassroots civic activism and the desire to preserve services and local assets considered valuable by the community. While it can be marshalled, action like this cannot be commanded at will, and once up and running, community owned initiatives based on voluntary contributions, mutual self-help and the adoption of a social enterprising outlook will lead to services operating beyond the reaches of local authority control.

However, local authorities do have a key role to play in community capacity building and infrastructure support for the local third sector, particularly if there is a trend to move from grant-giving to commissioning models. This illustrates a persistent barrier to greater levels of community involvement in service provision – the capacity of community organisations. Organisational support can be crucial in helping a community navigate its way through the process of assuming more control, and in sustaining its activity through the earlier stages of delivering a service, but when it is withdrawn then problems can emerge, particularly with smaller, volunteer-reliant groups. Any resultant failures are likely to cause resentment and disillusion among the wider community as well as leaving the local authority to deal with the consequences.

Goodwin Development Trust Wardens

40. www.localis.org.uk/images/ Localis_Birmingham_report_web.pdf

41. See www.communities.gov. uk/communities/communityrights/ righttobid/

42. See www.communities.gov. uk/communities/communityrights/ righttochallenge/

43. www.biglotteryfund.org.uk/ er_ca_final_report.pdf

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Case study: Goodwin Development Trust

Formed in 1994 through collective action by 14 residents on the Thornhill Estate in Kingston-on-Hull to tackle local problems in their community, the Goodwin Development Trust (GDT) is now one of the country's most successful community-owned and controlled social enterprises. It is a genuine grass roots organisation, formed by local residents who said "This isn't good enough, no one else is going to help us, no one else is bothered. We've got to do it ourselves – let's not talk about it, let's do it!" GDT is structured as a charity with a wholly-owned subsidiary trading company, and a primary objective "to improve the quality of life of the residents of Hull and surrounding areas." GDT is governed by a Board of Trustees, with Resident Directors elected by people living in the Thornton area. In recognition of its experience and local impact, GDT is one of the Government's ten Community Organiser pilots.

Today GDT operates from 36 sites across the city, with a property portfolio worth £11 million, a £12 million annual turnover and a workforce of 300 employees and 130 volunteers. Embracing co-operative values such as self-help and social responsibility, GDT can also be seen as an embodiment of the Big Society concept, demonstrating how community-designed and delivered services can create locally-tailored solutions and targeted early interventions that achieve significant positive outcomes for the community, as well as considerable savings. For example, as a result of interventions across a family of six, DCLG figures demonstrated that they were able to avoid costs of £112,000. GDT's services and interventions can be categorised into four key workstreams:

- Safer, Stronger Communities, including the 38-strong Community Wardens scheme, recognised nationally as an example of best practice. Other projects include the Community Integration Services, providing 300 places every week on English language classes. Its Preventing Reoffending Project has worked with 212 short-term prisoners, achieving a reoffending rate of 17 per cent (the national average is 60 per cent).
- Health and Social Care Provision includes projects to promote healthy and independent living, training 199 people to become community Health Champions, supporting 4600 local people, a Doula Project supporting 188 young mothers, and working with the Royal British Legion to provide support to 3,055 ex-servicemen and women and their families.
- Children and Young People's Services encompasses the three Sure Start Children's Centres catering to 4,408 children and their families, offering a range of integrated and joined up services.
- Employment, Enterprise and Training includes services to businesses, jobseekers and learners, with 1500 clients every year, and success in creating 83 new businesses.

6.5 Community Budgets: the genesis of a new multi-service organisation?

Building on the foundation of their democratic legitimacy, local authorities have long understood part of their role to be to develop a shared, strategic vision for their area, aligned with the strategies of their public sector partners. In more recent times, this has translated into the joined-up commissioning of services to avoid the waste and confusion of a piecemeal approach. Place based budgets, building on the work of the Total Place programme and now trialled under the Community Budget pilots, contain a latent logic that has the potential to revolutionise both public services and the current structures and organisations that deliver them. Following on from greater local collaboration through shared services and moves towards pooling resources and targeting interventions through preventative measures, the introduction of community budgets could provide a local evidence base from which to build a business case for a new emerging model of integrated public services.

By harnessing the combined local pool of financial resources and adopting a joint commissioning approach to tackle the underlying causes of complicated socio-economic problems with multiple-presenting needs, considerable benefits could be generated. The LGA[44] estimates that adopting this approach could secure savings of £4.5 billion a year through "better targeting, increased investment in prevention and better local synergies between services". The LGA also suggests that a pooled budget approach could also result in "significant improvements in outcomes… [surrounding] accountability, transparency, and responsiveness to local electors".

A long way to go

However, it must be noted that local authorities still operate under considerable bureaucratic constraints imposed by central government, particularly in relation to funding and performance models. Funding often comes with significant strings attached, and restrictions in the way it is allocated by the Treasury and disbursed by Whitehall departments, together with a generally prescriptive top-down model that outlines specific operational parameters and expectations, can in effect limit local government's room for manoeuvre, even – or perhaps, especially – with new ways of working that are being piloted under the Whole Place Community Budgets.

While relatively modest in scope and scale at present, we believe that Community Budgets have the potential to kickstart significant local pooling of resources, joint commissioning and deeper structural and strategic integration of the local public sector. However, if they are to fulfil this longer-term potential, local authorities will need to become more financially autonomous, with Whitehall transferring departmental spend and the associated accountability to them. While we appreciate that this is unlikely to happen for the foreseeable future, given the current upheaval and restructuring within Whitehall departments, in the short-term **we recommend that Government does more to encourage local public sector partners to participate positively in pooling resources and funding, and agreeing strategic commissioning outcomes and the joint implementation of arrangements to achieve them**. Not only will this lead to more efficient use of public money but, more importantly, it will help deliver better quality, more rounded services for those that really need them.

44. http://new.lga.gov.uk/lga/aio/12294113

What novel methods of service delivery are being developed/implemented?

West Cheshire College

Case study: 'Altogether Better' – West Cheshire Community Budget pilot

As one of the Government's four Whole Place Community Budget pilots, West Cheshire is leading the way in exploring how the public sector and its partners can pool resources, expertise and capacity at a local level, creating tailored, responsive and proactive services that can achieve better outcomes for local people, as well as savings. Chester West and Cheshire Council is one of 18 partner organisations involved in the new pilot, which when fully operational will result in 150 organisations working collaboratively to influence a total funding pot of between £3 to £4 billion.

Since March 2012 the project team, including secondees from eight Whitehall departments, has been reviewing the scale and scope of the pilot and developing business cases to present to Ministers in the autumn, including a series of detailed investment agreements and a draft operational plan for the Implementation Phase to 2015 and beyond.

The pilot is organised around four areas of intervention, which encompass a number of pressing, and increasingly costly areas of public sector

provision, together with a cross-cutting theme addressing organisational issues .The four themes are:

- Starting Well (troubled families and early intervention)
- Living Well (community empowerment and delivery, safer communities, and affordable housing)
- Working Well (local economic growth and work ready individuals)
- Aging Well (supporting older residents to live independent and healthy lives).

Within the Starting Well theme the Troubled Families programme gives a flavour of how the new approach will work in practice for the 525 families with multiple problems that currently cost public services in the area an estimated £39 million per year as a result of fragmented and uncoordinated responses. The pilot will use early intervention and a single assessment and referral process, to redesign and join up the public sector's response by following a single family plan that is able to address all the underlying issues and presenting needs, thus resulting in better outcomes for the families concerned, reduced demand on future resources, and wider community and social benefits.

To achieve this level of local integration and co-ordination, the pilot will have to overcome a number of key barriers, not least in finding new ways to engage with the relevant families, as well as exploring how various public sector organisations can move beyond their organisational silos and work together on often complicated and deeply interconnected issues.

The fifth theme – Smarter Services – is therefore focussed on working to overcome these, and facilitating organisational collaboration through a number of programmes, such as an integrated approach to public assets; the sharing of data, information and evidence in order to better understand customer needs; and the development of new models of strategic commissioning.

What novel methods of service delivery are being developed/implemented?

7. Achieving truly transformational change: implementation

"Innovation will come about through a multiplicity and diversity of thought processes and approaches in looking at a problem"

Respondent to survey

Changes in the way that local government operates will inevitably raise questions for all participants – not just local authorities and other branches of the public sector, but private and third sector operators, and the citizens receiving the services. This reflects the Commission on the Future of Local Government's call for 'civic enterprise', defined as a "new leadership style for local government where councils become more enterprising, businesses and other partners become more civic, and citizens become more engaged."[45] Yet numerous barriers exist to achieving transformational change on the scale required. Many of these are internal and organisational, and relate to the local authority as an organisation, ranging from fear of job losses and overcoming a silo mentality to a lack of leadership and insufficient capacity. For example, half of respondents to our survey found that the skills and capacity of internal commissioners was a problem when working with providers.

Factors that we identify as requirements for success include clarity of vision and purpose; effective contingency planning and risk assessment; and staff buy-in to the process, as well as technical aspects relating to a robust and clear procurement process, and the ability to identify effective, appropriate outcomes-based specifications. One survey respondent argued that working with a provider to "co-produce service delivery models" and "thorough terms and conditions – performance bonds, guarantees, payment terms, etc" were key to success and safeguarding against future problems.

7.1 Preparations and planning

Determining which services would be appropriate for alternative delivery models involves careful appraisal of different options, a process which will be informed by the council's overall strategic vision for itself as the place shaper of the area in its stewardship. This includes the priorities of local residents and identification of community needs as much as political or ideological considerations, current service levels and standards, external financial constraints and emerging evidence from other local authorities.

45. http://civicenterpriseuk.files. wordpress.com/2012/07/final-commission-on-the-future-of-local-government-electronic.pdf

Essex County Council points out that although all local authorities will be "bound by a common set of principles" in the form of their financial arrangements and legislative environment, how they address some fundamental questions about their core purpose, operating model, relationship with citizens, stakeholders and communities, brand profile and appetite for economic growth and financial risk will determine the shape and nature of their future council, with each locality coming to a different set of answers.

Preparation, preparation, preparation

Preparatory and planning activity has to be rooted in a council's strategic vision. Before outsourcing a service or function a local authority has to have an idea of how that function is currently performing, looking carefully at what it is doing and why, and considering whether it can be improved through stripping out waste and inefficiency in-house and recycling the cost savings. Alternatively, it should consider whether other models of delivery might be better placed to achieve this and deliver a wider range of benefits.

Robust preparatory work in relation to investigating new delivery models is a prerequisite of achieving successful outcomes. Three key questions need to be asked and answered as part of this initial work:

1. Is this service necessary, should the council be doing it at all?
2. If yes, what is the right model of delivering the service?
3. Who is best placed to deliver the service?

This will need to be followed by the development of a business case to support any change, addressing cost savings and service improvements alongside its fit with the council's strategic vision and delivery of wider objectives and outcomes. Planning how procurement is to be undertaken and resourced and, if seeking external provision, conducting due diligence on potential partners or providers that involves a thorough check of a potential provider's track record, will help mitigate against any problems. Openness and transparency is part of this process, in order to ensure buy-in from staff and elected members, and to prevent possible legal challenges.

Feedback from Localis research (roundtable) has identified a number of key considerations when planning commissioning activity:

- Breadth – through a whole place approach encompassing the whole public sector
- Embracing economies of scale
- Focus on economic growth and supporting a locality's economic drivers
- Shifting public opinion to see public expenditure as an investment requiring professional stewardship

Clear vision

Councils must be clear about their objectives, and the anticipated outcomes and then seek to identify via an assessment process the right organisations to partner with in order to meet them. Potential partners need to be assessed on a range of criteria, including past experience of working with public sector clients, understanding the social context and the public service ethos, how it can help improve services and deliver savings, as well as contribute to the local authority's strategic vision and specific outcomes.

Of course, it is also essential to have an exit strategy. Or, as one of the respondents to our survey put it, **"Arranging the marriage is easy. It is important for both sides that the divorce arrangements are agreed at the same time."**

Achieving truly transformational change: implementation

7.2 Social Value

In any assessment framework the prioritisation of achieving reductions in cost and improvements in services should be balanced against assessment of the social, economic and environmental benefits of a particular service. While local authorities already have the duty to achieve best value through consideration of social, economic and environmental value,[46] under the new Public Services (Social Value) Act 2012 they are now required to consider when making decisions about commissioning or procuring services how they might improve or benefit the economic, social and environmental wellbeing of an area.

Codifying this in statute has the potential to revolutionise thinking around how taxpayers' money is spent, as it places the need to look at securing wider and collective benefits for the community as a whole alongside value for money and cost considerations. Echoing the concept of 'public value' developed by Michael Moore[47] at the Harvard School of Government, local authority managers adopt an enterprising approach to achieving outcomes while guided by the principle of maximising public value (in the same way that companies are guided by maximising shareholder value).

This could involve a focus on improving local employment outcomes. For instance, since blue collar service employees are far more geographically localised, with the result that their wages stay in the local economy, requirements for local employees can valuably be built into contracts, with clauses stipulating payment of a living wage, or seeing joint enterprise profits recycled within the local economy. While only applicable to public services contracts or those with an element of goods or works (excluding those that wholly consist of the latter), guidance by Social Enterprise UK[48] highlights Cabinet Office ministerial support for consideration of social value by public bodies in all contracts.

7.3 Capacity

In order to negotiate effectively with providers, local authorities need staff, skilled in commissioning, coupled with access to specialist legal, financial, technical and service advice.

Badly planned, poorly designed and inadequately tendered and procured contracts can not only damage a council's ability to deliver the service improvements and cost savings that were a key driver behind the original decision to look for alternative providers, but can even lead to additional costs. For example, it is essential that local authority staff negotiating contracts are alive to the potential danger of 'supplier led demand' and avoid situations that would incentivise those contracted to deliver a service (whether in-house, private or third sector) to 'create a market' for paid for services.

Commissioning skills throughout local government and the wider public sector, such as around specifying outcomes are necessary. Cross-departmental commissioning and procurement teams, working across councils and the wider public sector silos, and able to harness all available expertise could be a solution to local commissioning skills gaps. It is excellent news that the Cabinet Office is taking the lead in creating a Commissioning Academy (announced in the Open Public Services White Paper) to assist commissioners in local government and the wider public sector.

A Commission on Better Commissioning

Probably the greatest single determinant of a successful shift to a new approach to local public service provision will be the expertise and proficiency of those

46. www.communities.gov.uk/ documents/localgovernment/ pdf/1976926.pdf

47. Moore, M.H. (1995) Creating Public Value: Strategic Management in Government, Harvard University Press, Cambridge MA, USA.

48. www.socialenterprise.org.uk/ uploads/files/2012/03/public_ services_act_2012_a_brief_guide_ web_version_final.pdf

acting as commissioners. It is noteworthy therefore that, despite the fact that local government has much more commissioning experience than the rest of the public sector, a majority of respondents to our survey of councils said that they needed greater skills in this area – and it is likely the need is greater in other arms of government. This is too important to leave to chance – there is an urgent need to strengthen local authority and wider public sector capacity and skillsets in commissioning, so that they can negotiate the flexible, locally-responsive and outcomes-focused contracts that will underpin many of these new models and methods.

Therefore, **we recommend that the LGA should join forces with the Government to establish a 'Commission on Better Commissioning' to determine how best to ensure that councils and their public sector partners can close the commissioning skills gap**. As part of its role, the **CBC should assume responsibility for designing and overseeing the Commissioning Academy that was announced in the Open Public Services White Paper as the Government's vehicle for investing in a national training programme for commissioners**. The involvement of the LGA with the Commissioning Academy will help to make learning and sharing best practice a mutually beneficial two way street between central and local government representatives.

As above, we also suggest that the CBC is responsible for publishing and publicising best practice on all aspects of public sector commissioning, including on revised EU procurement directives.

> "Training and development of people with responsibility for producing the specifications and contracts. It is a far, far bigger job of understanding and risk mitigation than the majority of people who are involved in the process actually know. The problem generally is that the specifier of the service and contract writer are not always knowledgeable in the actual service delivery, and knowledge of the three parts is key."
>
> **Respondent to survey**

7.4 Contracts and partner relationships

> "Spend time getting the contract terms right. Particular attention needs to be paid to arrangements for contract variations and built in flexibilities".
>
> **Respondent to survey**

It has been suggested at a Localis Roundtable that previous problems with contracts between local authorities and external providers lie with both parties: local government for lacking the skill to negotiate effectively, and the private sector for taking advantage of this skills deficit to agree inequitable terms. But, put frankly, this is no longer a viable outcome – if history repeats itself, the results will be ruinous for all concerned. There simply isn't enough money any more for any of it to be unnecessarily diverted – in the form of excessive profits – away from the goal of delivering high quality public services that meet the needs of society.

Flexibility is key
Many private sector contracts with other private sector bodies are quite flexible, with providers hired on a project or rolling year on year basis and assessed according to performance, which can be terminated relatively easily or renegotiated. Innovation and meeting the changing needs of the customer are key to the operation of private-private contracts, and if performance is unsatisfactory then a client is able to change provider painlessly. Flexibility is

therefore indispensable to the new, emerging generation of contracts, which need to be grounded in a different way of working that can accommodate change, renegotiation and exit free from punitive penalties, and based on values of partnership. This is particularly relevant when dealing with significant capital investment requiring longer-term contracts. These can be essential to build genuine, mutually-rewarding and successful partnerships, in order to provide stability and a degree of certainty underpinning any arrangements to justify phased investment and secure savings that will only be realised over a long period of ongoing collaboration.

There is no place for the sort of imbalanced and penalty-heavy contracts that were sometimes used in the past. For services requiring substantial investment – either in plant or people, for instance through the assumption of pension liabilities – it is clear that more long term partnership arrangements will be needed, built on a spirit of cooperation and characterised by a willingness to honour the spirit of the contract and work together amicably and in partnership to cope with good times and bad.

It is also worth noting that some recent high profile failures of private sector provision have lead to calls (such as by the House of Commons Public Accounts Committee)[49] for a greater public disclosure of data relating to outsourcing and commissioning by the public sector, stating in its report that "Transparency on contract pricing which is often hidden behind commercial confidentiality clauses would help to drive down costs to the taxpayer". Should such legislation be enacted, for instance by amending the Freedom of Information Act, it would of course have an impact on commissioning and negotiation of contracts. It is not clear, however, what effect such a move would have on private sector appetite to collaborate with local government.

Monitoring contract delivery is an additional skill and resource that must be embedded at the centre of any commissioning approach in order for contract performance to be measured, enabling action to be taken should things go awry.

7.5 Inter-authority and pan-public sector working

When considering a strategic vision for their localities, local authorities will need to be mindful of the potential for public sector collaboration through joint commissioning, alongside shared service platforms and functions. This can be between different tiers of councils: for example, one respondent to our survey remarked that they were particularly proud of "devolving complete services and functions to town and parish councils", a positive example of cross-tier partnership working. In the longer-term, it could also signal future local government reform and public sector mergers at a local level.

Local political parochialism, silo mentalities of public sector departments and bureaucratic obstructionism have to date prevented greater depth and breadth of joined up locally-integrated services, demonstrated by the paucity of examples of voluntarily pooled budgets. However, a continuation of the current model is unsustainable – this lack of local co-ordination between councils and other public sector bodies is not only increasingly unaffordable, but is not delivering the outcomes that the public sector, acting on behalf of the taxpayer, is expected to achieve.

Pan-local authority arrangements such as the Combined Authority demonstrate how local political divisions and administrative boundaries can be overcome, and are one possible indicator of the shape of local authority structures to come.

49. www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/102/10202.htm

www.localis.org.uk

Structurally integrating public sector services and organisations, and pooling resources and finances under local democratic leadership to meet identified local outcomes is another possible avenue worthy of exploration, and following the narrative and argument for innovation in terms of service delivery the logic for collaboration, rationalising and restructuring commissioning processes has a remorseless logic of its own.

7.6 Local authority accountability, enterprise and a new role for elected members

The traditional local authority operating model perceives public services delivered by the council to be valuable due to their public ownership and democratic oversight. As this has given way to a mixed market of provision, there is sometimes a fear that the result may be an accountability deficit. And there will always be those who believe that the public service ethos will be diluted by the involvement of service providers who are independent from the local authority.

Accountability of the local authority is of course vital, regardless of the service provider, and must run throughout the commissioning process. But, just because the provider of a service is no longer the council itself, there is no reason why, with the right governance mechanisms and communication channels in place, this should be a problem. Local authority input can take place at various levels, from retaining a stake in a service delivery vehicle and having elected members sitting on joint boards of new or shared ventures, to holding providers to account through monitoring performance and involving council officers in setting operational policies.

As custodians of taxpayers' funds and in their role as the accountable body for streams of central government spending, local authorities may be seen to be traditionally risk averse. Adopting new delivery models necessitates a refashioning of this attitude, with the nature of the model being examined determining the required appetite for risk. The acceptance of risk goes hand in hand with fostering a culture of innovation and enterprise.

The balance of risk between commissioner and provider is an ever-present concern. While all recent administrations supported the use of the Private Finance Initiative to deliver a wide range of capital investments in the public sphere, in hindsight it is widely accepted that there was an unequal balance of risk between public and private sectors in a number of PFI schemes, which has undermined support for the model. It is essential, therefore, that new service arrangements encourage commissioner and provider to share risks so that, if things go well, everyone benefits, but that when things do not work as intended, the downside too is shared. The more innovative joint enterprise model is one way to meet this challenge.

A new role for councillors

> "More work needs to be done to enable and skill up members to make the right decisions and to feel more comfortable with these kinds of approaches"
> **Respondent to survey**

As local authorities move away from directly providing services, towards embracing a plurality of provision and a more sophisticated role in commissioning services, the role of councillors will change. Mechanisms will be needed to ensure that elected members, particularly backbench members, do not feel disengaged or disempowered through an increased diversity of

provision, greater devolution of responsibilities to communities and a pooling of authority and finances with local public sector partners. The role of the councillor is particularly important if local authorities are to co-commission services and commission on outcomes, and links to the 'guarantor of standards' role of the state as set out in the Open Public Services White Paper.[50] **Elected members will need to be equipped with the relevant skills required for with their new roles as community champions and service scrutineers.**

Scrutiny of service providers' performance is one area where elected members can continue to exert influence, as well as fulfilling the role of community champion and primary representative of local residents, helping forge a new relationship between representative and participatory democracy, and articulating community needs and issues back to the council and its partners, rather than representing the authority and justifying its actions and the performance of its services to local people. Oldham Council's new leadership course to accredit councillors exemplifies how local authorities can work on a cross-party basis to achieve this.

7.7 Building a new relationship with citizens and communities

Of course all these new service models will have a varying impact on local residents. While many people do not mind how services are delivered or by whom, as long as they are done competently,[51] citizens, as service users and taxpayers will be faced with the need to adapt to changes in how some or all services are paid for, procured, delivered and accessed.

At the same time, the media needs to appreciate that more locally orientated and controlled services are based on what local people want – in other words, that a 'postcode lottery' is, not only not necessarily a 'bad thing', but is often an actively good thing in that it reflects the infinite variety of circumstances that each area faces.

Service-user involvement in the commissioning process is a method that could reduce hostility towards new ways of service delivery, drawing on local knowledge, experience and resources in order to improve outcomes and ease pressure on resources. In an analysis of co-production used by the Institute of local government at Birmingham University[52] this is posited as an 'assets model' – referring to local potential and capacity rather than physical assets – emphasising what local communities can contribute, rather than a 'deficits model' that focuses on what they need to get from services. This recognises that even the most deprived communities have resources and strengths that can be harnessed to achieve better outcomes and make the most of taxpayer spending, with the potential for local community organisations to act as intermediaries between members of a community and council commissioners.

One thing is clear: service users will be increasingly intolerant of poor customer service standards, particularly if customers are having to adjust to the idea that things have changed, and local authorities will need to respond to this accordingly, ensuring the customer experience is second to none.

At the heart of a new way of working, lies a new way of thinking – not only for local authorities, but for residents and for external partners from the public, private and third sectors. Honest, trusting and mutually beneficial relationships are key to the success and sustainability of many of these alternative models, from engaging in dialogue with local communities over their rights and responsibilities within the new realities of local service provision, to developing

50. "we also believe that the state has a key role in defining outcomes, and in setting standards for public services and ensuring that they continue to rise. In its capacity as guarantor of standards the state will play an important part in setting the bar for existing and new providers who want to compete to provide public services. This will send a clear message that 'unless you can match or better our minimum standards, you have no place delivering public services"

51. www.guardian.co.uk/public-leaders-network/2012/jul/11/cbi-acevo-alternative-public-service-provision

52. www.publications.parliament.uk/pa/cm201213/cmselect/cmcomloc/writev/112/m11.htm

non-exploitative, collaborative relationships with private sector providers that involve a fair and balanced split of risk and reward.

To be a local game-changer, and provide the bold, visionary and entrepreneurial leadership that seeks to completely change the way things are done in a locality, local authorities will need to re-learn the old attitudes of municipal enterprise in order to catalyse real change in their areas. Through a calculated approach to managing risk and reward, and entertaining experimentation and innovation, while developing a new internal culture of empowering and devolving responsibility to employees, communities and service users and creating a next generation of partnership arrangements with a diverse range of providers, including working as commercial partners in joint enterprise, only local government can provide the democratic leadership role that our communities, neighbourhoods and local economies urgently need.

8. Recommendations

- Local authorities should evaluate potential service options on their merits, and avoid making decisions on future provision based on ideology
- Councils will need to ensure that they emphasise solutions that serve to promote local economic growth and maximise the social value obtainable through taxpayer spend
- Government should seize the opportunity presented by the current EU review of procurement regulations to argue strongly for a truly fundamental reshaping so that they are made much simpler, less administratively burdensome, and more flexible
- Government should move to act in reducing the perceived and actual complexity of employee ownership. This should involve the development of clear, simplified 'off the shelf' and 'ready to go' co-operative and mutual models
- Government should prioritise the creation of long-term transition arrangements and the temporary exemption from EU procurement rules for mutuals
- Government should do more to encourage local public sector partners to participate positively in the pooling of resources and funding, and to agree strategic commissioning outcomes and the joint implementation of arrangements to achieve them
- The LGA should join forces with the Government to establish a 'Commission on Better Commissioning' (CBC) to determine how best to ensure that councils and their public sector partners can close the commissioning skills gap
- The CBC should assume responsibility for designing and overseeing the Commissioning Academy announced in the Open Public Services White Paper as the Governments vehicle for investing in a national training programme for commissioners
- Government and LGA to use the CBC to assist local authorities and other parts of the public sector to understand what they can and cannot do, including on revised EU procurement directives
- Elected members will need to be equipped with the relevant skills required for with their new roles as community champions and service scrutineers
- The new way of working for local authorities will rely on honest, trusting and mutually beneficial relationships, with both residents and external partners from the public, private and third sectors
- To be a local game-changer, local authorities will need to re-learn the old attitudes of municipal enterprise in order to catalyse real change in their areas

9. Conclusion

Whichever political party or coalition of parties are in power at Westminster, local government spending is never again likely to reach the levels of the past decade. Local authorities have already demonstrated that they are capable of adapting as financial conditions have changed, exploring alternative models of delivering services through structural and procurement changes, such as greater outcomes-focused commissioning, strategic partnering with the private sector and integration on a shared services basis with neighbouring authorities. In terms of achieving savings, efficiencies and responding to the Government's public service reform agenda, councils up and down the country have shown that not only do they have the willingness to meet the challenges imposed on them by the considerable reductions in central government funding, but they have shown that they are clearly ahead of the game regarding the Government's public sector reform agenda in implementing creative new ways of working.

Even the alternative models that have been tried and tested such as commissioning, strategic partnering and the sharing of services are evolving to meet the new challenges faced by local government and changing expectations surrounding the roles of citizen and community, local state and public, private and third sector partners. Commissioning is one alternative approach to in-house delivery that has achieved greatest take up across councils of all political hues, and through an outcomes-focused approach towards contracting external providers can represent a fundamental break from the traditional model. At the other end of the scale, a hyper-local approach to service provision through co-production or community-led commissioning can be criticised as leading to fragmented provision, while benefits of the approach can be found in its harnessing of local knowledge and expertise in ensuring services are locally-relevant, responsive and fit for purpose, achieving improved outcomes, cost savings and the prospect of decommissioning services that are not wanted or not working.

Strategic partnering provides access to private sector expertise, capacity and investment that can improve the efficiency of back office and more recently front line service delivery (with the potential for generating additional income for the council through joint commercial enterprise) to secure strategic local authority objectives. Shared services between councils can provide a quick route to efficiencies, reduction of duplication and the sharing of overheads and functional expertise. Partnership working holds the key to securing a wide range of benefits for councils and for meeting the reform agenda.

We conclude that the next generation of public-private partnerships will need to be based on flexible contracts and joint arrangements that share both risk and reward between the private and public sectors. While being of sufficient length to make it worthwhile for private sector investment, such contracts must

also be able to accommodate reasonable requests for change to adapt to evolving requirements and circumstances, without penalising local authorities or making partnership working arduous and ineffective. Likewise, we suggest that local third sector organisations will need to adopt a more social enterprising approach in their work with local authorities, from acting as an intermediary in local community-led commissioning and citizen co-production to delivering community-facing services on behalf of local authorities.

Communities, citizens and service-users will also have to adapt and change the nature of their relationships to the council, moving in the words of Oldham's Co-operative Council approach from 'passive recipient to active participant'. Councils must take a lead in changing this relationship, fostering a mature dialogue with their local communities to establish what local people expect of their local services, spelling out the difficult decisions that need to be taken in light of pressures on public expenditure, and the resulting additional responsibilities and levels of involvement that local people will have to assume.

Promoting behavioural change among service users will also be a key objective of a local authority's changing role, in particular to reduce and change the nature of the demand on public provision. Joint commissioning is a starting point for this new way of working, as well as a greater pooling of local public sector resources such as the Community Budget pilots. Tentative and circumspect as these may be, with a focus on measurable success in a few important areas, the logic of local collaboration along these lines could lie in a radical reconfiguration of the local public sector, with a dilution of the powers and responsibilities that lie across organisations into an integrated local public service organisations, accountable to and under the local democratic control and mandate of elected community representatives. Talking about such radical transformative change may be regarded as an horizon-scanning exercise, but illustrates where closer collaboration and partnership working could lead.

The new menu of options available to local authorities includes some models that are predicated on internalising and inculcating a certain ethos across the organisation, such as mutuality or enterprise. Although the structural approach to provision may be radically different, from embracing a willingness to let go, in the form of employee-owned mutual spin-offs or divestment and devolution to local community organisations, such as through asset transfers, or a potential extension of local government's activity and greater involvement in local markets through the arms-length autonomy of wholly owned subsidiary trading companies, the role of the local authority is set to undergo considerable change.

To be a local game-changer, local authorities will have to re-learn old attitudes of municipal enterprise through a calculated approach to managing risk and rewards, and entertaining experimentation, while developing a new internal culture of empowering and devolving responsibility to employees, communities and service-users. Cementing all of this should be an appetite for partnership working, across sectors, markets and a plurality of organisations, that seeks to forge relevant, responsive and locally-tailored solutions through building sustainable, mutually rewarding relationships. In order to achieve this, key recommendations from this report need to be adopted by central and local government, such as around strengthening local authorities' capacity to negotiate and manage contracts, as well as a new approach to partnership working. These next generation of agreements need to be based on a degree of openness, flexibility and the balancing of the profit motive with the public service ethos (which is perhaps best illustrated through many local authority trading companies, or the social enterprise approach), but which to date has

been found lacking in many of the traditional approaches to public-private working.

More generally, introducing new models of provision, or doing different things differently, will always generate risks. Proposals for any sort of change regardless of its nature will involve people moving out of their comfort zone, adapting to new ideas or ways of working. While some people thrive in such situations, for others it can provoke negative reactions, ranging from cynicism and uncertainty through to hostility and implacable opposition, and the current emerging and more established models introduced by councils as they seek to rethink provision to secure better outcomes support this. However, one thing is certain: times are changing, and local government has to continue to change with them. Arguably the biggest risk lies in standing still and doing nothing.

Conclusion

Appendix: Survey results

1. Do you think that local government is ahead of the game in developing innovative new ways of delivering public services (e.g. sharing services, sharing staff, making efficiency savings, exploring alternative delivery models, working with the voluntary sector etc)?

Answer Options	Response Percent	Response Count
Yes	87.7%	64
No	12.3%	9
	Answered question	73
	Skipped question	9

2. Does local government require more freedom and flexibility in order to respond to future challenges?

Answer Options	Response Percent	Response Count
Yes, definitely	60.3%	44
Yes, ideally	26.0%	19
Probably not	12.3%	9
Definitely not	1.4%	1
	Answered question	73
	Skipped question	9

3. How would you rate your experiences with these delivery partners generally, as applicable?

	Very positive	Broadly positive	Neutral	Somewhat negative	Very negative	N/A	Rating Average	Response Count
Private sector organisations	12.5% (9)	51.4% (37)	16.7% (12)	6.9% (5)	1.4% (1)	11.1% (8)	2.67	72
Voluntary sector organisations	8.5% (6)	67.6% (48)	15.5% (11)	0.0% (0)	0.0% (0)	8.5% (6)	2.41	71
Mutuals	6.8% (4)	13.6% (8)	13.6% (8)	0.0% (0)	0.0% (0)	66.1% (39)	4.71	59
					Answered question			73
					Skipped question			9

4. What do you think are the biggest potential benefits when it comes to commissioning or working with private/voluntary sector or mutual-based organisations?

Answer Options	Response Percent	Response Count
More efficient services	45.2%	33
More innovative services	53.4%	39
Reduction in council headcount	26.0%	19
Helping drive council-wide change	31.5%	23
Breaking down silo-working	37.0%	27
Making use of external expertise	68.5%	50
Making use of community contacts	30.1%	22
Greater engagement with the locality	41.1%	30
Other [open ended comments]		7
	Answered question	73
	Skipped question	9

5. What do you think are the biggest potential problems when it comes to commissioning or working with private/voluntary sector or mutual-based organisations?

Answer Options	Response Percent	Response Count
Unaligned priorities	35.6%	26
Performance-related issues	38.4%	28
Reduced flexibility	42.5%	31
Sustainability-related issues	11.0%	8
Reduced accountability	34.2%	25
PR-related issues	12.3%	9
Skills and capacity of commissioners	49.3%	36
Lack of providers	34.2%	25
Reduced democratic engagement	32.9%	24
Other [open ended comments]		7
	Answered question	73
	Skipped question	9

6. Are there any LA services that you think would have to remain in-house under any circumstance?

Answer Options	Response Percent	Response Count
Adult Social Care	16.4%	12
Children's Social Care	32.9%	24
Economic development & business support	19.2%	14
Environment health	17.8%	13
Highways maintenance	2.7%	2
Licensing	31.5%	23
Planning	43.8%	32
Public health	16.4%	12
None	38.4%	28
Other [open ended comments]		14
	Answered question	73
	Skipped question	9

As this timely report recognises, for a number of reasons – not least among them the economic reality we face – the status quo is not an option for our public services. Fortunately, with challenges come opportunities, and it is good to see that local government is leading the way in developing innovative new approaches to public service delivery. Localis should be commended for producing a report that not only points out the options – as well as the pitfalls – open to councils, but which also in its recommendations describes some of the key barriers that need to be overcome for local government to pursue this agenda further.

Rt Hon Oliver Letwin MP, Minister of State, Cabinet Office

This is an important contribution explaining how local services can continue to be delivered in the face of rising demand and declining resources. It rightly identifies the need for citizens to have a more central role in defining service needs. The proposals for simpler procurement and a stronger role for cooperatives and mutuals will resonate with local government leaders who must innovate to deliver the services and security so many of their residents need.

Lord Shipley, Government Cities Adviser

With spending reductions to make, all Councils are having to look at ever increasingly diverse methods of service provision. This report provides a valuable guide to the different kinds of delivery models being used across the country and encourages politicians and senior council officers to go further in exploring the right kind of service delivery for their area. The days of only using in-house employees to deliver services to residents have gone as the marketplace for local authorities to secure service provision continues to expand.

Councillor David Burbage, Leader of the Royal Borough of Windsor and Maidenhead

This is a timely and salient report – Local Authorities need to re-evaluate the way that they meet their responsibilities. We can't meet this challenge by doing things the same way, and the savings that we can achieve through conventional efficiency measures won't last forever. That's why we're thinking and working in a radically different way – that's what our Co-operative Council approach means.

Councillor Jim McMahon, Leader of Oldham Council

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