ENTERPRISE SOLUTIONS

BARRIERS & SOLUTIONS TO PUBLIC SECTOR SPIN-OUTS

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Acknowledgements

Barriers & solutions to public sector spin-outs

Executive summary

The last few decades have seen a fundamental reform of how public services in the UK are delivered, with local authorities providing less direct provision. This has seen public services contracted out to private and third sector organisations, including social enterprises. This process accelerated under New Labour in their post-1997 push towards a 'third way' in welfare delivery in which organisations, such as social enterprises, were seen as key in the future delivery of public services (Haugh and Kitson, 2007). The election of the coalition government and the focus on the 'Big Society' has led to a continuation of this policy route, that has culminated with the desire to see public sector workers spin out the services that they provide into co-operatives, charities, mutuals or social enterprises that are independent of local authorities (Cabinet Office, 2010). The rationale behind this approach is that these new forms of public service delivery 'empower' public sector staff and lead to innovative public services that are responsive to their user's needs, more efficient and less bureaucratic (LeGrand and Mutuals Taskforce, 2012; Hall *et al.*, 2012a).

As part of this policy landscape Capital Ambition was established. London Councils' Capital Ambition is the capital's improvement and efficiency partnership for London local authorities. Since 2008, Capital Ambition has been directing £40 million of government funding to help boroughs achieve efficiency savings, promote innovation and improve performance. As part of the wider Capital Ambition programme it launched Enterprise Solutions, that aimed to assist boroughs to radically reform their delivery of public services. A number of London Boroughs were encouraged to explore independent models of service (London Councils, July 2012). This research report outlines the findings from four Local Authorities (LAs) that explored the spinning out of public services into staff-led mutuals or social enterprises. In total eleven interviews were held with key stakeholders from the four LAs in order to explore their experiences of the spin-out process, the barriers that they encountered and the solutions to these that they devised.

The results suggest that there are a number of key barriers that the four LAs encountered during the spin-out process. The first revolves around the need to communicate effectively and ensure stakeholder buy-in, both internally (senior management, staff, elected members) and externally (service users, trade unions). Second, the capabilities of service staff and other relevant LA staff were found to be essential, both in planning the spin-out and developing a robust business plan. There is also a need to identify what external expertise is required to deliver a successful spin-out. Third, the need to be fully aware of the local and national policy environments was also found to be important, both in securing buy-in and support at a local level and in being aware of the support that was available at a national level (i.e. Mutual Support Programme). On the other hand, the potential benefits of spinning out services were clearly articulated by the participants in relation to independence, financial freedom, the ability to behave innovatively and to be responsive to service users. These results are discussed in relation to the research aims and the prior literature outlined in the report.

1. The background to public service spin-outs

1.1 Overview

There have been radical and significant reforms to public services in the UK over the past few decades which have resulted in less direct provision of public services by Local Authorities (LAs), the opening of services to private sector competition and an increased 'marketisation' of the public sector (Hall *et al*., 2012b; Simmons, 2008). This has been led by a drive to create high quality public services that are responsive to user needs, but are more efficient and cost-effective. Central government is creating a more diverse market in which the public have greater choice over the services they use and the organisations that provide them. Since the election of the Labour government in 1997 and its vision of the 'third way', the UK government has been keen to increase the role of the third sector in welfare and public service delivery (Haugh and Kitson, 2007). Furthermore, the government have been especially keen to enable public sector workers to take over and run their services as co-operatives, charities, mutuals or social enterprises (Cabinet Office, 2010). These forms of delivery 'empower' public sector workers to have greater control over the services they run, thereby making them more responsive, innovative and less bureaucratic (LeGrand and Mutuals Taskforce, 2012; Hall *et al*., 2012a).

1.2 Policy context

The transfer of local authority (LA) staff into new provider and employee-owned organisations (referred to from this point on as 'spinning out') is not a new phenomenon. In the late 1980s there was the development of New Housing Associations and in the early 1990s the management of leisure services was transferred into New Leisure Trusts. This process accelerated under New Labour in 1997 and more recently through the Coalition's 'Big Society' agenda. Indeed, the concept of social enterprise was pushed forward under New Labour as a means for public service delivery. In 2001, the Department of Trade and Industry (DTI) set up the Social Enterprise Unit to provide direct government support for social enterprises. This role was incorporated into the work of the Office for the Third Sector (OTS) in 2006, and has been continued in the Coalition's re-titled Office for Civil Society (OCS). The DTI developed a widely used definition of social enterprises as '…*business[es] with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to*

maximise profit for shareholders and owners…' (DTI, 2002). This broad definition therefore encompasses a range of organisational forms and as a result the legal status and definition of social enterprises is a highly contested area.

Academic efforts to define the *characteristics* of social enterprises have also been made. Gui (1991) identified the 'dual ownership structure' that social enterprises have, whilst the EMES network identified nine organisational characteristics of social enterprise (four economic and five social) (Borzaga and Defourny, 2001). Further attempts were made to define social enterprise around its organisational mission, with Campi *et al.* (2006) identifying the 'triple bottom-line' of social enterprise mission objectives (social, environmental and economic). This ambiguity in social enterprise definition has caused governments problems in identifying exactly what they are, so that support can be targeted at assisting the social enterprise sector to deliver public services. Efforts to rectify this were made through the introduction of the 'Community Interest Company' (CIC) in 2004, which offered a specific legal organisational form for social enterprises. Since 2010, the Coalition government has placed more focus on the broader defined 'mutuals' as a model for public services.

A Mutuals Taskforce report (LeGrand and Mutuals Taskforce, 2012: 8) defines 'public service mutuals' as organisations which have left the public sector i.e. spun out, continue to deliver public services and in which employee control plays a significant role in their operation (ibid, 2012: 9). The same paper states the key benefit of this being that 'instead of public services being run from a desk in Whitehall, mutuals are a way for entrepreneurial and committed public sector staff to take over the services they run'. The UK government is investing in public service mutuals through the £10m 'Mutuals Support Programme', a comprehensive package of advice and support for potential mutuals, including a web-portal and helpline (ibid, 2012). This was developed following the launch of the Mutuals Pathfinder programme in August 2010 which over the following two years saw the establishment of 21 'pathfinder mutuals' (Cabinet Office, 2011). These pathfinders covered a range of different service areas and organisational forms. This initiative links to the White Paper 'Open Public Services' (Cabinet Office, 2012) which positions mutuals at the heart of public service reform. As a result, every government department put in place a right for public sector workers to take over the running of their service (except in sensitive areas such as defence and security), as a way in which to make savings to the public purse and hopefully at the same time to improve the quality of services (Birchall, 2012).

Within health and social care, the creation of mutuals is well underway, especially in the form of social enterprises. Initiatives designed to support health and social care staff 'spin out' their services into social enterprises include the 'Right to Request' and subsequent 'Right to Provide' policies (Department of Health, 2008; 2011). Right to Request (RtR) was created as part of the 'Transforming Community Services Programme' which provided all English community health workers the opportunity to 'spin out' their services as a social enterprise (Department of Health, 2009). Funding and additional support was made available to support these organisations through the Social Enterprise Investment Fund (SEIF), which has invested over £82m in approximately 450 new and existing

Within health and social care, the creation of mutuals is well underway, especially in the form of social enterprise

social enterprises in health and social care (Hall *et al.*, 2012b). RtR has resulted in at least 38 new social enterprises, with a total of at least 22,000 NHS staff working within them (Miller *et al.*, 2012a). The RtR scheme was closed in March 2011 but has been replaced by Right to Provide (RtP), which extends the right to 'spin out' to all English health and social care workers (Department of Health, 2011).

To increase efforts to open up the market for public services, there have also been a number of reforms to commissioning. The passing of the Social Value Act (SVA) on January 1st 2013 requires commissioners of public services to '…consider how the services they commission and procure might improve the economic, social and environmental well-being of the area' (SEUK, 2012). Whilst there is no one agreed definition of social value, NHS North West defined it as relating to the 'additional benefit to the community [non-financial] from a procurement process over and above the purchasing of goods, services and outcomes' (NAVCA, 2013). This policy intervention has been driven by a desire on the part of LAs to see concepts such as 'happiness', 'well-being' and 'empowerment' considered by public sector authorities when commissioning out services (NAVCA, 2013). Furthermore, the establishment of the 'Any Qualified Provider' scheme in 2012 seeks to encourage a diversity of providers of health and social care services, thereby enabling patients greater choice over the care and treatment they receive and the organisations that they receive it from (including public, private and third sector providers) (Department of Health, 2011).

1.3 Spin-outs: the benefits and barriers

Although it is still relatively early days for spin-outs, the benefits and barriers associated with the process are beginning to emerge. Benefits can be achieved for staff, service users and commissioners and are largely focused around increasing the innovation, effectiveness and efficiency of services. In terms of benefits for staff, evidence from the Mutuals Pathfinder programme (Cabinet Office, 2011) identified that public service mutualisation enabled greater staff engagement and that passion, trust and confidence of staff could be gained by allowing them to be part of the day-to-day running of the organisation. The report also identified that dealing with any staff concerns early on, as well as maintaining the existing managerial team through the spin-out were crucial in ensuring successful staff engagement and trust. Research by Simmons (2008) on New Leisure Trusts, which are one of the first and most widespread examples of public service spin-outs, identified that by engaging staff as stakeholders in the organisation, the 'us' and 'them' barriers between managers and staff are broken down. The democratic nature of these mutual organisations with their 'dual-ownership' structures (Gui, 1991), fosters greater equality and may in turn contribute to increased productivity and staff morale, as well as lower staff turnover and sickness levels.

Alongside staff engagement, users are also being engaged more in spin-out organisations. By engaging with users, services are better placed to understand the needs of those who use them and subsequently tailor their services more appropriately. Increased user engagement may include having service users on the Board, or as paid staff or volunteers (Hall *et al.*, 2012b). Although users are more represented within spin-outs than

LAs, there is still limited evidence to show that user's views get fully integrated into organisational aims and objectives (Simmons, 2008). This may be something that requires further thought by spin-outs.

Independence from the LA also enabled greater flexibility, and decision-making processes that were much quicker as the need to engage in lengthy LA processes was avoided. Independence from the LA also enabled organisations to use their financial resources in a more flexible way. Sesnan (2001), in his account of Greenwich Leisure Limited (a New Leisure Trust), emphasised that a clear benefit of the spin-out was the opportunity to bid for grants and contracts not otherwise open to the public sector. The ability to reinvest profits back into the service is seen as a real benefit for the service, as well as an incentive to improve performance and output (Hall *et al*., 2012a; Simmons, 2008). Avoiding the complex and lengthy bureaucracy associated with the public sector is therefore a well cited advantage of spinning out into a social enterprise and a key means to greater innovation (Miller et al., 2012b). Avoiding the LA 'shackles' did however mean that the security associated with the public sector was gone (Simmons, 2008). Spin-outs are required to compete with other organisations to survive, whilst this provides the ability to bid for new sources of income, it also brings increased levels of risk.

A number of challenges associated with spinning out have also been identified. This includes the survival and performance of the service, in particular the ability of the new organisation to generate sufficient income. Simmons (2008) found that some New Leisure Trusts struggled to develop and grow as they were unable to obtain development finance. Although social finance is available for spin-outs, such as through the SEIF in health and social care, this may only be available for a limited time. Additionally, spin-outs are often restricted from obtaining start-up funding and growth capital as the majority of social finance institutions will not provide funding to start-up or nascent ventures. In addition, fund managers perceive considerable amounts of risk in financing organisations that may receive the vast majority of their income from one (or a few) public-sector contracts (Hazenberg *et al*., 2013). Furthermore, changing policy landscapes, such as around social finance, can affect the viability and sustainability of spin-outs (Cabinet Office, 2011). Hall *et al*. (2012b) also found that many new social enterprises in the health and social care sector are not yet in a position to be able to compete with other public, private and third sector providers and tender for large public-sector contracts. For spin-outs, this is in part due to the considerable time it takes for them to establish themselves (something usually underestimated), which limits their ability to access funding and secure service delivery contracts (Hall *et al*., 2012b; Tribal, 2009; Miller and Millar, 2011). Although initiatives such as 'Any Qualified Provider' have opened up the public sector for social enterprises, these new organisations will have to compete with efficient and substantially-sized private sector businesses. New organisations may be superseded by larger and more commercial organisations through their economies of scale and their ability to run loss leaders (House of Commons, 2011: cited in Birchall, 2012).

The 'ethos of the new organisation' has also been cited as a potential barrier. This includes the 'culture fit' between the social enterprise and the public sector. Simmons (2008) identified issues around the replacement

of a public sector ethos with a more businesslike managerial culture. This can in turn impact on 'accountability' as spinning out involves a move away from the authoritative relationships of the elected members within LAs to a more democratic ownership model that includes not only management, but also staff and service users. Accountability may also be compromised through new complex contract arrangements (TUC, 2011). Whilst democratic ownership is a distinct advantage of new mutuals and social enterprises, it also has the ability to create internal and political tension. This may be overcome through formal representation of the Council on the Board of the social enterprise thereby fostering a partnership arrangement (Simmons, 2008), although this can have perceived negative consequences in relation to organisational independence and potential legal ramifications.

Within the LA, staff may be resistant to spinning out due to uncertainty over their transfer of employment rights

The challenges associated with spinning out also include the support and skills of staff. Staff members are often required to 'work in a different way' (Simmons, 2008), take on new roles and often demonstrate business and entrepreneurial skills they did not possess. Research suggests that public sector workers may not have the business and management skills required to set up a social enterprise and survive within a competitive market (Hall *et al*., 2012b). There is also a need for all key stakeholders to support the spin-out. Internally, this may include service staff, middle and senior managers, LA Councillors as well as service users. External stakeholders may include trade unions and other voluntary and community groups. Within the LA, staff may be resistant to spinning out due to uncertainty over their transfer of employment rights (known as TUPE), and in particular their pension rights (Birchall, 2012). This has been an issue raised by trade unions who have rejected the 'Open Public Services' agenda, arguing that opening up public services to multiple providers will create harmful competition and ultimately drive down quality (TUC, 2011). They also argue that the process of mutualisation is 'flawed', threatening public sector jobs as a result of uncertainty over TUPE and pension rights.

The decision to spin out may therefore be led by a desire for independence and autonomy, and ultimately the creation of a better, more reactive service. On the other hand, evidence suggests that the decision to spin out may instead be based on necessity rather than choice, as employees may be 'pushed' into conversion if the alternatives are seen as worse (Birchall, 2012). Previous research on social enterprise spin-outs in the health and social care sector has found that social enterprises have largely arisen as a reaction to government re-structuring policies (Hall *et al*., 2012a; Addicott, 2012). As such, some public sector services 'spun-out' as a social enterprise as this was the only way to retain their service. Therefore, although there are some distinct advantages of spinning out, there are also a considerable number of barriers, especially with regards to the sustainability of the new organisation. Spinning out to avoid the alternative (e.g. being put out to tender), may result in a business case that does not stack up. In these cases, the service may be unable to compete in a competitive marketplace and consequently cease to exist. There is moreover, limited evidence to date on the outcomes of public sector spin-outs. This report seeks to fill this gap in knowledge by providing evidence from four case studies of recent public sector spin-outs that participated in the Capital Ambition 'Enterprising Solutions' programme.

1.4 Capital Ambition: an overview

London Councils' Capital Ambition is the capital's improvement and efficiency partnership for London local authorities. Since 2008, Capital Ambition has been directing £40 million of government funding to help boroughs achieve efficiency savings, promote innovation and improve performance.

The Capital Ambition programme has achieved efficiencies of around £76 million, with a forecast that this will rise to around £357 million by March 2016. Enterprise Solutions is one part of the wider Capital Ambition programme, launched with the aim of supporting London local authorities to radically reform their delivery of public services. The programme built on prior work in the area completed by Lambeth council and Social Enterprise London between 2010–11 seeking evidence and developing processes for how best independent models of service delivery could be utilised to deliver public services.

The current programme involves four London boroughs, each of which has explored the feasibility of spinning out public services in areas such as adult social care, library services, children's services and communications services. A brief description of the four boroughs participating in the Enterprise Solutions initiative and the services that they sought to spin out is provided in Section 3.1.

2. Research aims

The research study focused on the barriers that were experienced by the four LAs in exploring the possibility of spinning out public services and/or in the actual spin-out process. The research also explored the solutions that were identified and utilised to overcome these barriers. The research findings, along with the prior literature, have been used in a series of recommendations on how best to overcome the barriers to spinning out public services. These recommendations are relevant to policymakers and other LAs in England. In investigating this area the research explored the following specific research aims that were derived from the literature outlined above:

1. What were the barriers experienced by the four London Boroughs in the spinning out of their public services?
2. What solutions were identified to overcome these barriers?
3. How did the local and national policy environments affect the 'spinning out' of the public services?
4. How did the business skills/capacity of the staff within the 'spun-out' services affect the success/failure of the programme?

3. Methodology

3.1. Participants

The research was conducted at four local authority (LA) case studies based in London. The data collection took place between December 2012 and January 2013. A description of the four case studies is provided below.

Local authority 1: LA1 decided to spin-out its communications and public relations services as a way of creating better networking and development opportunities as well as realising efficiency savings. The spin out is currently at an early stage and is developing its business case.

Local authority 2: LA2 explored the possibility of a partial spin-out of its library services. The aim was to make savings by looking at alternative ways of delivering services in five of their twelve locations. Four library buildings were transferred to the community, and one library collection was re-sited within a building owned by a local organisation. A range of additional services and activities are now offered by one charity, one community group and one social enterprise in the five 'community hubs'. The local authority retains responsibility for the library service including books, IT and professional support (TI, 2012a).

Local authority 3: LA3 explored the possibility of spinning out services in its Adult Social Services Department. There was a particular focus on the employment integration and training services provided to adults with learning disabilities (TI, 2012b). The proposed spin-out is now not going ahead and the services in question are going to be commissioned out through a tender that is open to private and third-sector organisations.

Local authority 4: LA4 explored the possibility of staff from the Youth Support and Development Service spinning out to form an employee-led mutual that would provide a range of services to young people under contract to the council (Cabinet Office, July 2012). The spin-out process is ongoing.

In total semi-structured interviews were held with eleven participants from across the four LAs outlined above. The participants were all senior managers or council officers from the LAs who had been key stakeholders in the development of the proposed spin-outs and/or involved in the actual spinning out process (where that took place). Table 1 below provides a breakdown of the interviews at each LA.

Table 1. Participant breakdown by LA

Local authority	Senior Management (N)	Council Officers (N)
LA1	1	0
LA2	3	1
LA3	2	1
LA4	2	1

3.2 Procedure

The study adopted a qualitative research method, in which semi-structured participant interviews were conducted with key stakeholders involved in the spin-out process such as senior managers and council officers. These interviews sought to elicit paticipants' perspectives of the rationale behind the spin-out process, the barriers and solutions encountered/employed during the spin-out process, the final outcome of the spin-out process, the perceived benefits of spinning out and the policy and funding environments that they operated in. The full interview schedule can be found at Appendix A.

3.3 Data

The data collected during the fieldwork stage of the research study consisted of 11 semi-structured interviews. The interviews ranged from 23 minutes in length to 54 minutes in length, with an average interview length of 36 minutes. Out of the eleven interviews, eight were held in person at the relevant LAs and three were held over the telephone. All interview data was recorded on a digital audio recording device for transcription and analysis.

3.4 Analysis

The method employed to analyse the participant's individual semi-structured interviews was 'Constant Comparative Method' (Glaser & Strauss, 1967; Lincoln & Guba, 1985). Constant Comparative Method (CCM) is an iterative procedure designed for the qualitative analysis of text and is based on 'Grounded Theory' (Glaser & Strauss, 1967). Constant Comparative Method has been successfully applied in previous studies across a wide range of disciplines from social venture creation (Haugh, 2007) to music composition strategies (Seddon & O'Neill, 2003). This method of analysis focuses on a process where categories emerge from the data via inductive reasoning rather than coding the data according to predetermined categories (Maykut & Morehouse, 1994). Constant Comparative Method involves five main stages: Immersion, 'units of analysis' are identified; Categorisation, 'categories' emerge from the 'units

of analysis'; Phenomenological reduction, 'themes' emerge from the 'categories' and are interpreted by the researchers; Triangulation, support for researcher interpretations of 'themes' is sought in additional data; Interpretation, overall interpretation of findings is conducted in relation to prior research and/or theoretical models (McLeod, 1994). The units of analysis identified from this process are provided in Appendix B.

4. Results

4.1 Overview

As outlined above, the interview data was analysed according to the principles of CCM and with reference to the four research aims outlined in Section 3. The research aims are:
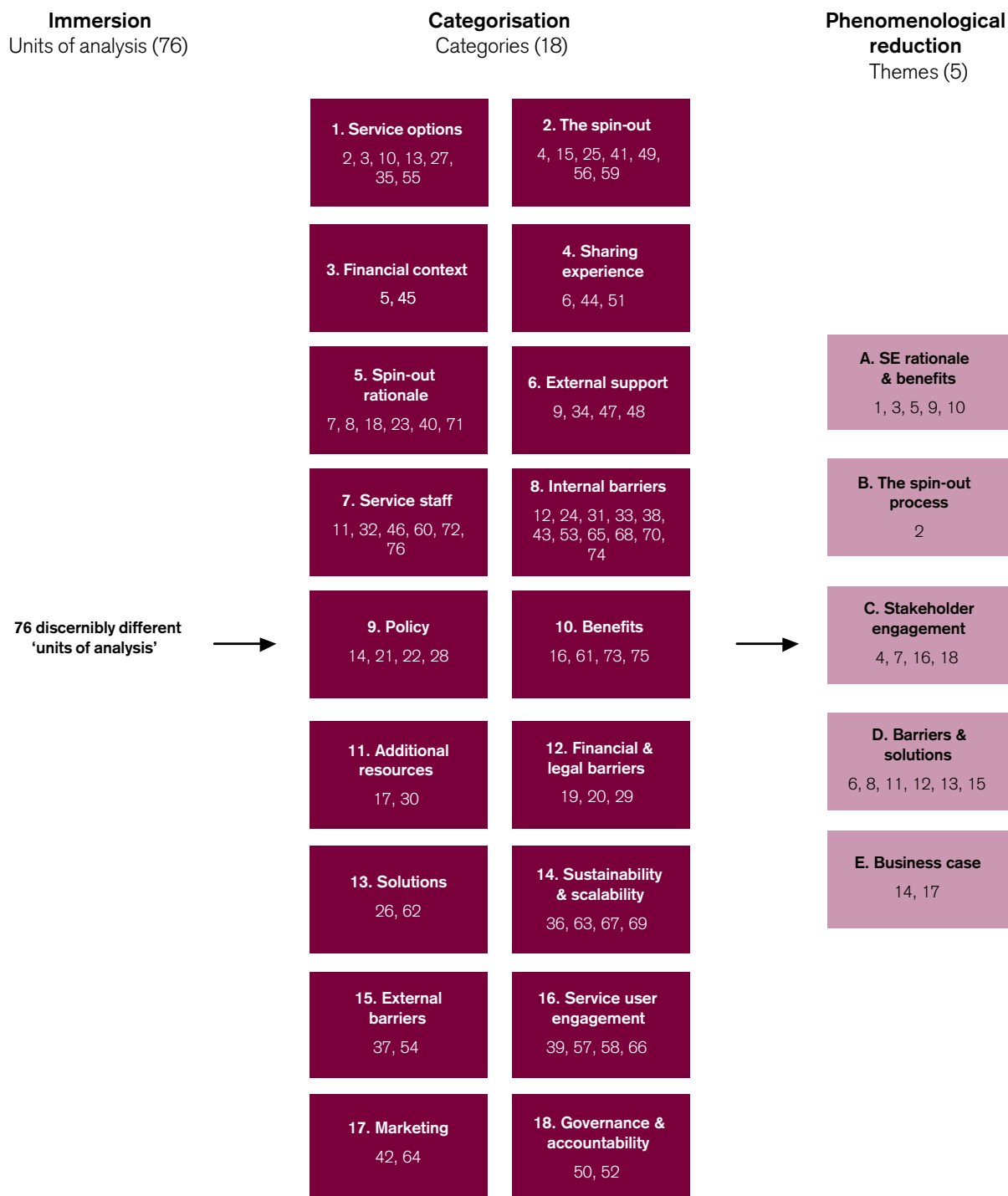
1. What were the barriers experienced by the four London Boroughs in the spinning out of their public services?
2. What solutions were identified to overcome these barriers?
3. How did the local and national policy environments affect the 'spinning out' of the public services?
4. How did the business skills/capacity of the staff within the 'spun-out' services affect the success/failure of the programme?

Five overall themes emerged from the analysis of the interview data from the LAs

Analysis of the interviews involved engaging with the five stages of CCM. During 'immersion', 76 discernibly different units of analysis were identified from the data (e.g. 'spin-out rationale' and 'political motivations'). During 'categorisation', these 'units of analysis' were grouped into 18 'categories' and from these categories 5 'themes' emerged through a process of 'phenomenological reduction'. These five emergent 'themes' were subsequently interpreted as: 'Social Enterprise Rationale and Benefits', 'The Spin-Out Process', 'Stakeholder Engagement', 'Barriers and Solutions' and 'The Business Case'. A diagrammatic illustration of this qualitative analysis process is provided for further clarification (see Figure 1).

Five overall themes emerged from the analysis of the interview data from the LAs. These themes were interpreted as organisational perceptions based upon key actors within the LAs. It is proposed that an examination of these themes will reveal the factors that influenced the spin-out process and the benefits that spinning out brought (where this occurred). In the following discussion the participant quotations selected represent examples taken from 'units of analysis' relating to each relevant theme.

Figure 1. Phases of CCM analysis for the LA interview data

Immersion
Units of analysis (76)

Categorisation
Categories (18)

Phenomenological reduction
Themes (5)

76 discernibly different 'units of analysis' →

1. Service options
2, 3, 10, 13, 27, 35, 55

2. The spin-out
4, 15, 25, 41, 49, 56, 59

3. Financial context
5, 45

4. Sharing experience
6, 44, 51

5. Spin-out rationale
7, 8, 18, 23, 40, 71

6. External support
9, 34, 47, 48

7. Service staff
11, 32, 46, 60, 72, 76

8. Internal barriers
12, 24, 31, 33, 38, 43, 53, 65, 68, 70, 74

9. Policy
14, 21, 22, 28

10. Benefits
16, 61, 73, 75

11. Additional resources
17, 30

12. Financial & legal barriers
19, 20, 29

13. Solutions
26, 62

14. Sustainability & scalability
36, 63, 67, 69

15. External barriers
37, 54

16. Service user engagement
39, 57, 58, 66

17. Marketing
42, 64

18. Governance & accountability
50, 52

→

A. SE rationale & benefits
1, 3, 5, 9, 10

B. The spin-out process
2

C. Stakeholder engagement
4, 7, 16, 18

D. Barriers & solutions
6, 8, 11, 12, 13, 15

E. Business case
14, 17

NB. The numbers displayed above in Figure 1 in the 'categories' boxes correspond to the relevant units of analysis contained in that category. The numbers in the 'themes' boxes correspond to the relevant category contained in that theme. A full numbered list of the units of analysis can be found at Appendix B.

4.2 Research findings

Theme A: Social enterprise rationale and benefits

Several issues had influenced the decision to spin out or explore spinning out the services at the four LAs. The main motivations were based around the financial crisis and government spending cuts, which meant that LAs had to achieve the same outputs (or sometimes more) with less finance. This provided a motivation to explore new models of public service delivery such as outsourcing of services through tendering processes, decommissioning of (non-statutory) services and the spinning out of services into private entities that may or may not be social enterprises. There was a desire however, that if services had to be outsourced then staff in the services should retain control and ownership of the service, and so a spin-out into a social enterprise was seen as the best way of achieving this. In one case the driver towards exploring a spin-out of a service was that the service and the staff were going to be transferred (TUPE) into another organisation anyway, and so a social enterprise spin-out was seen as the *only* option that would allow staff to retain control over the service.

> 'About 3 years ago we saw the storm clouds gathering around public spending cuts and being non-statutory that made us particularly vulnerable, and one of the options that we explored is that we spin out into a private company…as the severity of the cuts started to come in…we were faced with a choice that we could either manage over 5 years a 50% reduction of our revenue, or we could spin out…'
> **(P9)**

> 'Obviously the ethos of councils at the moment is offloading services and doing less and facilitating more. So the idea of something standing alone was appealing and so we were kind of favouring the spin-out option, partly because it also meant that staff could be part of it and feel ownership of it.'
> **(P7)**

> 'We would have been TUPE'd into another organisation…Our service would have shrunk considerably…social enterprise was the only option.'
> **(P10)**

There were other motivations for exploring the spin-out of services over and above other outsourcing options, such as the perceived benefits that it was felt this would bring to the service, staff and beneficiaries. It was felt that the spinning out of services would bring independence around funding, marketing, service delivery, employment and culture. This latter point was felt to be a key benefit as allowing staff to 'buy in' to the service mission would help to drive efficiency and innovation.

> '[The] ability to attract alternative funding. Potential cost-savings yes because we may have been able to reduce the massive infrastructure costs that are associated with being part of a LA. The ability to generate income much more freely, seeking contracts from different authorities. The ability

to sell work experience placements, the ability to use people's budgets to support it, and I think just freedom to be more entrepreneurial.'
(P5)

'Another big change for us is the culture shift, moving away from the very strong culture that LAs have. It tends to make staff rather passive. We need to have a much more innovative proactive and creative approach to our work.'
(P11)

The LA often supported the spin-outs through a transfer of assets or through a low-cost lease for assets such as buildings

Finally, the process was often driven by policy contexts at both a local and national level. Locally, this was much more dependent upon the support of the senior management team and Council members, as without this it was difficult to complete the spin-off process. However, nationally the rhetoric around the Big Society, legislation such as the Social Value and Localism Acts, as well as the funding opportunities that were available for delivering spin-outs (i.e. Pathfinders), all had a positive effect on the desire to spin out and the process itself.

'I know some local authorities where people like myself have proposed mutuals and have found they are just not getting the top level buy-in because it just does not fit with where those councils are going so we had the good fortune of our top brass that they value new ways of working… with mutuals being an example.'
(P11)

'Probably the Big Society was the driving point…I guess that has been the starting point at looking at more efficient ways of running the public sector…the driver is financial but however, we now actually believe and we have communicated this to the staff that as well as being cheaper it is also more efficient…'
(P9)

'We have had cash from the cabinet office mutual pathfinder fund to pay for our solicitor's fees and also the training for business administration.'
(P11)

Theme B: The spin-out process

The spin-out process was managed differently across the four LAs. In relation to consulting with staff, only one of the LAs held a full staff vote where 100% of service staff unanimously decided to spin out. Across the other three LAs, consultation with the staff was more informal, with conversations occurring between the council officers who were conducting feasibility studies around the spin-outs and the staff. However, all four LAs engaged with the staff significantly in relation to exploring the spin-outs viability and its perceived impact upon services. Whilst staff were generally positive about spinning out there was nervousness around what this would mean in relation to employment, pensions, service delivery and social mission. The LA often supported the spin-outs through a transfer of assets or through a low-cost lease for assets such as buildings.

'We did follow up you know with people asking what is going on in your service right now? Are you likely to spin out? And it did put the seed into several people's minds so that a few opportunities came up that were clearly contenders for the Capital Ambition work.'
(P7)

'The council was prepared to give out the buildings rent-free on a long-term basis on the condition of maintaining the buildings and providing social, community benefits.'
(P1)

'At first it [staff reaction] was mixed…a bit of disbelief, what does this mean? There was a reluctance to accept this as…we were a very well-resourced new service. There was a lot of denial and then there was a lot of interest around what it means to be employee-led and democratic… There was a fear that we would lose our values…there was a fear from people about work on services that you can't really charge for…so there was a fear around what type of organisation would we change into…and there was a fear and sadness about leaving the council.'
(P9)

For the two LAs that decided to spin out their service into a social enterprise, there was a trend of doing this over a transitional period (a third LA is currently in the transition phase). Typically, the service would be prepared for spin-out through organisational and staffing changes, it would then operate semi-autonomously for a period of 3-6 months, before becoming fully independent and transferring the staff and assets across to the new organisation. This allowed the spinning out organisations to test the new service structure and to become sustainable, before the 'apron strings' were cut from the parent LA. This also allowed the staff and management of the spinning-out service to ensure that the focus on the social mission and service delivery to beneficiaries had primacy within the business model.

'There was a transition period of three months where the council and [social enterprise staff] worked alongside and supported each other so that by the time the [service] staff pulled out, the staff and volunteers left felt confident enough and skilled enough to be able to continue and develop.'
(P4)

'What we are now going to do in the interim is we are going to be a trading company, and we are going to have a trading element to the team and we are doing partnership work with a couple of other companies…so we will deliver that for six months…the trading company is owned by the council so my intention is that we can TUPE the staff across and do pensions and payroll. Put them into the trading company by which time we will have defined our market…so the agreement with the Chief Executive is that come September we can step out fully from the organisation and then we can become the social enterprise…'
(P8)

'What we are looking at as part of the business is kind of looking at the values of it and the purpose of it. The value, I mean for us...is obviously putting the residents' needs first is kind of a really key driver...'
(P8)

Theme C: Stakeholder engagement

Stakeholder engagement was seen by the participants at all four LAs as fundamentally important in being able to garner support for a spin-out and to then successfully spin out the public service. The support internally of staff at all levels ranging from the senior management team to service delivery was viewed as paramount. This was achieved by consulting with the service delivery staff at every opportunity and as has already been mentioned, in one LA a vote was held amongst the staff to reach the final decision as to whether to spin out or not. It was seen that such democratic decision-making processes helped to ensure staff buy-in, which was important if you were going to harness their passion to deliver the spun-out service. There was however, a need for the service to have a strong leader at the helm that could then harness this engagement and facilitate the overcoming of the numerous barriers that are faced in spinning out.

'You need to ensure you have got that support internally at every single level.'
(P10)

'We put it to a staff vote...we had always said to staff, because this is so extreme if you like and we were asking staff to take a very personal risk not just professional risk...we said we would put it to a vote and would set a very high threshold for acceptance and if the vote was negative we would abandon the project, and we meant it...We set a threshold of 80% [staff acceptance] so to get 100% [yes] was beyond what we expected.'
(P11)

'We are working with people who are so passionate about retaining [the service] that they are prepared to put their time and energy into making sure there is something there for their community.'
(P3)

'It needs someone really determined running it and leading it...they have got to really believe in it. It is bloody hard and you absolutely got to believe in it because you will encounter innumerable barriers and show stoppers and you have to be incredibly determined to get through all of those.'
(P11)

There was also recognition of the limits that internal stakeholder engagement had in developing a spin-out, mainly due to a perceived lack of skills internally within the service and the LA as a whole. External experts were recruited at board-level to ensure that the decision-making structures had the requisite levels of expertise. Business training was supplied to staff and advice was sought from other organisations and LAs across the country who acted as 'mentors'.

'Talk to as many people as possible...there is more experience now across the country of this happening and we can only benefit from sharing our experience.'
(P3)

'So we are having to build in all sorts of structures to make sure we have got the right business skills. We have got a business mentor who is working with us who has followed this path before. We are about to have a training course in business administration skills for key staff, and thirdly we have recruited to our board of directors people with commercial and business skills as non-exec directors. People with finance backgrounds, marketing, business strategy, from the commercial sector but who never-the-less have an interest in helping young people. They are going to come in and advise and support us.'
(P11)

Two of the LAs adopted governance structures in which service users were elected to the board and involved in the decision-making processes

Finally, the consultation of service users was also seen as a key part of the stakeholder engagement process. Focus groups and service-user interaction groups were established in order to see what services these beneficiaries valued the most, as well as hearing their suggestions for and fears about the proposed spin-out. This last point was quite pertinent as some of the engagement meetings were very heated and unpleasant, but by providing such forums for dissent it was felt that a great deal of goodwill and support was secured from the community once the final decision to spin out was made. Indeed, two of the LAs adopted governance structures in which service users were elected to the board and involved in the decision-making processes. It was felt that this would allow the service to continue to develop into the future and to remain responsive to community needs. There was also a desire to use research reports and customer feedback initiatives to increase the responsiveness of the spin-out services.

'At the first meetings people were angry...couldn't understand why we were doing this…Those consultation meetings were at times quite unpleasant, people were not just angry but they were getting quite personal about people within the council…People started to come round...'
(P4)

'We got a group of [service users] from the north and the south of the borough and we gave them £250 of monopoly money and said these are all the services and this is what they do. You have to allocate the money to the services that you like and think are important…There will be a lot more of that in the future.'
(P9)

'We have had focus groups with service users and we also have two elected service users on our programme board...so that their views will be very well heard at the top of the organisation… [Having service users on the board] will be a significant shift in the way service users can input into the shape of the service itself…It shifts the way services work with service users...it makes them more responsive.'
(P11)

Barriers & solutions to public sector spin-outs

'We want some form of accountability through some form of board that would include local people. We want reps as well on there holding us to account. One thing that we also want…we also want research and knowledge, so the input, views, experiences of service users or customers…'
(P8)

Theme D: Barriers and solutions
Perhaps the biggest challenges that the participants articulated were centred upon developing and implementing spin-out plans. The solutions developed in overcoming these barriers relied on access to both internal and external knowledge and resources. One area that was discussed was in relation to negative attitudes from senior management teams, which if not managed well could present insurmountable problems to the spin-out. If the people at the top of the LA did not buy in to the spin-out proposal then it would most likely not happen, and this is what occurred at one of the LAs. The development of a very strong business case that provided a cost/benefit analysis for the LA was the best way of securing such buy-in.

'You know in managing change then there is a great deal of uncertainty. Managing the politics at the top makes a difference if there is a keenness to do it...'
(P6)

'There are always barriers because we can't read minds; we can't know what our senior politicians or senior officers really want. So we can spend a lot of time working through options only to find that they had never been wanted or favoured. So I suppose there are always political barriers in that we don't always know what we are working with…'
(P7)

'My advice would be make sure that you have got a really strong business case that looks at the costs and the benefits to the new organisation and your organisation itself…if both sides stack-up then go for it, I would…'
(P7)

Another area that presented a barrier was in relation to expert knowledge (or lack of it) within the LAs, mainly in relation to legal and financial matters (EU competition law and TUPE). All of the LAs had to seek outside legal and management consultancy expertise in order to proceed with the spin-out, as the experience of carrying out such processes was not retained within the LA. This was done through either employing consultancy firms, recruiting experts at spin-out board level or through the use of mentors. It was felt that the growing number of consultancy firms and other sources of support out there meant that knowledge gap issues should not present an insurmountable challenge to any LA that wished to spin out.

'I think the big barrier for me that stands out over the last year is actually the understanding and ability to work through those European and other legal obligations of any of the options really. It was like wading through treacle because nobody really seemed to have an adequate handle on what

we can and can't do. We have legal experts but they aren't experts in this and it strikes me that there must be dozens of councils around the country struggling with this.'
(P7)

'What strikes me is that within the council at the moment that knowledge is just not there and it's not their fault, it just isn't their environment and I have found it really difficult to get this thing moving, because what you want is someone to come in [and provide expertise].'
(P8)

'So for instance we had consultants in and asked them how it is best to run these services in the future.'
(P6)

'So one of the things that we have done is that we have a board of directors…five of the people on it are directly elected members of staff, our chief executive [name] but we have also recruited four people from the world of business by putting out an advert in [a newspaper].'
(P9)

'I would advise that people have mentors externally supporting them. Talk to the people who have done this before.'
(P10)

Another key barrier that was discussed was that the spin-out of services does not occur in a vacuum. The ongoing financial crisis and the impact that this is having on government spending and LA budgets meant that often the development and implementation of spin-out plans was occurring within turbulent organisational structures. Staffing cuts and restructures negatively impacted upon the ability of departments to plan ahead, particularly in relation to the proposed spin-out. Additionally, this was further complicated by the bureaucracy inherent within LAs (due to central government requirements) that made the process extremely slow and made it difficult to get the key stakeholders together. However, again there was a feeling that this could all be overcome so long as there was sufficient will and buy-in to the concept from the senior management team and other staff.

'Alongside the [spin-out] we [service] were also going through a whole staff service restructure to contribute to the savings…so we were looking at possible redundancies. So management were not only trying to steer and develop this new service delivery but trying to steer our own staff through this change…we couldn't have made more fundamental change…but we are now in such a strong position…It was about a huge amount of change all happening at once.'
(P4)

'[Working for council] was one of the most frustrating jobs…there was a lot of red tape passed down from central government to local councils that really restricts people and I think you go in there and say you want to do

this, this and this but in the end you just have to do your job. In the end I got so frustrated with it…Central government needs to allow freedom for people to use their entrepreneurial skills and there are people with great ideas within council services but I think they are really restricted from doing those ideas.'
(P2)

'I think the issues here are probably people are very busy and it is getting everybody together to agree a way to do it.'
(P6)

'The fact is if there is a will for these things to happen then they can happen. If the overriding priority is that we want to see a slimmer, leaner council then it could happen. You know, TUPE and pension transfers happen all of the time.'
(P7)

The final barrier that was faced was in relation to trade unions. Whilst opposition from the trade unions was not significant, particularly when the service in question was non-statutory, the participants felt that it was important to engage fully with them to ensure that they did not present further barriers to what was an already complex process.

'The unions had an issue with it.'
(P4)

'The unions haven't been unsupportive…but I think that has been about engagement…'
(P9)

Theme E: Business case
In developing the business plan for a potential spin-out the participants saw in-depth market research as fundamental to the development of a robust business plan. This market research should be focused on costings, income, growth projections and most of all the genuine belief that the customers will *buy* the services that you are selling. This allows the LA and the service-delivery staff to build sustainable structures that provide the spin-out with the maximum opportunity of future success. It was also felt that the spin-out staff had to break free of the shackles that were placed on them in the LA so that they thought entrepreneurially and could identify future revenue sources.

'You have to have a business case that stacks up and a service that people want to pay for…Some people see it as a survival belt, but that is not the way to look at it. You have got to have a strong business case and also the people who are paying for your service currently, a commitment that they are going to pay for it in the future. Otherwise you have got no money.'
(P11)

'So what we have done stepping back is done a lot of research around what is the market out there, what is the costs, what is the potential growth,

so basically trying to create the framework for a full business case or business model…'
(P8)

'It is the concept behind the model that is scalable.'
(P1)

'We have got a system that can be built on to and you can see how the organisation needs to be structured in order to sustain that…There is the potential for this kind of thing to grow because of the sustainability…'
(P3)

'As a LA we are very limited with what we can access. In the future we will have much wider access to resources and funding, and can work in partnership with other organisations…We may deliver in a whole other range of settings [as a social enterprise]. The world is our oyster in the future.'
(P10)

The need for a good marketing strategy and networks with the media whilst going through the transition to an independent spin-out was highlighted by one of the participants. Their spin-out transition experienced problems caused by false press releases stating that the service in question had closed. This was further exacerbated by individual bloggers and a local political party who continue to blog negatively about the spin-out service.

'All the press were reporting that [the services] were closed…so I can see why issue and visitor figures plummeted…We had to do a lot of publicity, it took quite a while to get the papers…to say we were open. There were so many blog sites, that were putting us down…There are still 2 people who are against it all…they are still blogging. And there is a local political party who are still blogging…'
(P2)

Finally, in relation to the future, all of the participants interviewed were positive about the prospects for the services, whether they had been spun-out or not. However, there was genuine dynamism amongst those participants that worked with 'live' spin-outs or transitioning services.

'We are really starting to see the benefits…We are now in such a strong position. When we look at the landscape of [services], not only here but across the country, there are some that are only now starting to think of all of this…'
(P4)

'I am just really looking forward to it now and I think that does reflect the views of a lot of staff as well.'
(P10)

5. Discussion

In this section the findings of the research study that were presented in Section 5, will be summarised in relation to both the prior literature outlined in Section 2 and the research aims outlined in Section 3, which are also presented again below.

1. What were the barriers experienced by the four London Boroughs in the spinning out of their public services?
2. What solutions were identified to overcome these barriers?
3. How did the local and national policy environments affect the 'spinning out' of the public services?
4. How did the business skills/capacity of the staff within the 'spun-out' services affect the success/failure of the programme?

5.1 Barriers and solutions

Out of the four LAs that participated in the research study, two spun out their services

Out of the four LAs that participated in the research study, two spun out their services, a third is operating its service in transition with a view to fully spinning out in the future, whilst the fourth decided against spinning out its service and instead decided to commission the service out through a tendering process (albeit one that is open to private and third sector organisations and will incorporate social value).

Despite the different service areas and outcomes for the spin-out proposals at the four LAs, there were common barriers identified across all of the boroughs in relation to the spinning out of services. The first and perhaps most difficult barrier related to stakeholder support. Obtaining the support and engagement of *all* stakeholders was seen as crucial, but in particular the buy-in of senior management teams (SMTs). Indeed, a number of participants articulated the difficulties that could be encountered due to an unsupportive SMT and at one LA this ultimately led to the decision not to pursue a staff-led spin-out of services. This offers support to prior research by Simmons (2008) that highlighted the need to keep stakeholders engaged and informed. However, whilst Simmons talked mainly about staff and service users, it would also appear that this applies to SMTs and even elected council members. The main way to overcome this as articulated by participants was to ensure regular communication with SMTs and to present them with a robust business plan that carried out a cost-benefit analysis of the case for spinning out. The production of a robust business plan is not necessarily easily done, as many of the participants talked about a lack of business acumen and experience that hampered their attempts to spin out. This led to the use by LA staff and managers of external consultants, business mentors and training agencies (see Section 6.2 for more detail) and confirms prior research that discussed

the limited business acumen contained within some public service depart-ments (Simmons, 2008; Hall *et al.*, 2012a).

However, this is not to say that the engagement and support of staff and service users was not also seen as key. Indeed, all of the LAs viewed this as an important facet to securing buy-in to the spin-out process, although only at one LA did this result in a formal staff vote. The general trend was for informal consultations with staff and service users through focus groups and meetings that aimed to keep them informed of progress and take on-board their ideas and concerns. This was particularly impor-tant in relation to staff members who were concerned about the impact that a spin-out would have on their employment and pension rights (Birchall, 2012). Whilst the TUC (2011) has argued that this presents a major barrier to spin-outs, the participants in this study felt that this was easily overcome through a combination of engagement and information with/for staff, as well as the acquisition of detailed legal advice around the TUPE process. Again, this offers support to prior research which identi-fied that the engagement of staff and service users was crucial in breaking down barriers between staff and management and ensuring that services were tailored to user's needs (Hall, 2012b). Nevertheless, the open nature of the decision-making process did lead to tension, particularly with service users who worried that the spin-out process would ultimately lead to service decommissioning. Additionally, whilst Simmons (2008) argues that there is limited evidence that users fully engage with the organisa-tional aims and values of spin-outs, the evidence from this study was to the contrary, with two of the LAs actively seeking to incorporate service users into the spin-out decision-making structures by offering seats on the Board. Indeed, such democratic and 'dual-ownership' models are not only characteristic of social enterprises (Gui, 1991; Borzaga and Defourny, 2001), but are also a key government aim of public service spin-outs (Cabinet Office, 2011; LeGrand and Mutuals Taskforce, 2012).

Another barrier encountered related to a lack of expert capability and experience within LAs in carrying out the spinning out of services, particularly in relation to financial and legal issues (EU competition law and TUPE). The participants discussed the need to engage with external experts such as law firms and consultancy firms in order to check on the legality of their proposed plans. The LA legal departments (understand-ably) did not have the requisite experience or skill in this area. Whilst prior research has identified a lack of business skills amongst spin-out staff (Hall *et al.*, 2012b), this finding suggests that the skills shortage and experience also include wider departments in the LA (i.e. legal, account-ancy, HR). However, the participants did not view this as a major barrier and as has been previously mentioned, this was overcome through the engagement of consultancy firms, mentors and networking with other LAs that had gone through a similar process. As the spin-out landscape matures this should become easier to overcome as the number of LAs and private firms with experience in the area proliferates.

The LA participants also discussed the impact that general LA restruc-turing had upon the spin-out process, particularly in relation to staffing levels. In the first instance, the decision to spin out public services or at least to explore the option was motivated by proposed LA spending and staffing cuts and the threat that these posed to the services in question.

One of the proposed spin-outs was driven by the fact that their service would be decommissioned if it was not spun out. This environment is not necessarily conducive to a process that is designed to provide '…a way for entrepreneurial and committed public sector staff to take over the services they run' (LeGrand and Mutuals Taskforce, 2012), and offers support to Addicott's (2012) claim that the motivation behind spin-outs may merely be a reaction to restructuring processes. However, even once the decision to spin out had been made, other LA restructuring programmes created barriers for the spin-out programmes, as the services in question were undergoing significant staffing cuts (sometimes of 50% or greater), whilst at the same time attempting to plan for and implement a social enterprise spin-out. This placed the manager(s) of such services under great pressure to quickly identify staff skills that needed to be retained for the spin-out, amidst a general restructuring process. This again offers support to the Cabinet Office's (2011) report that suggested that the management teams of spin-out services needed to be retained (at least during the process of spinning out).

Finally, the barriers presented by trade unions (TUs) were also briefly discussed by the participants. However, despite prior research that suggested that TUs may be resistant to public sector spin-outs (Birchall, 2012), including a report by the TUC (2011), the participants of this research study did not articulate this as a major barrier. Whilst a trade union did oppose the spin-out at one of the LAs, other LA participants stated that whilst the TUs constantly questioned the spin-out process, this was often done proactively. It was felt that this was due to the ability of the managers leading the spin-out process to regularly inform and engage with the TU, as well as recognition from the TU that where the services in question were not statutory, the alternative could be a decommissioning of the service.

The local and national policy contexts were also important in shaping the spin-outs at all four LAs. The majority of the LA participants discussed how the national policy context around the increasing use of the third sector in public sector delivery (Haugh and Kitson, 2007; Cabinet Office, 2010), the 'Big Society' policy agenda and the more recent policy drive around public service spin-outs and mutualisation (LeGrand and Mutuals Taskforce, 2012; Cabinet Office, 2012) had provided the initial catalyst for exploring the spin-out of individual services. This was supplemented by the need to make significant financial and staffing cuts to services, as well as existential threats to non-statutory services. The impact of national policy was seen to be greater if the LA in question had a Conservative-led council chamber and an executive run by elected Conservative members. The support on offer through schemes such as the 'Mutuals Pathfinder Programme' (Cabinet Office, 2011) were also important in allowing the spin-outs to access external resources such as funding for developing the spin-out proposal and implementing the spin-out itself. However, despite this support at a national level it was very much the local policy environment that determined the outcome as to whether to implement a proposal into a 'live' spin-out. Participants at one of the LAs talked about how, after work had been carried out to scope the possibility of a spin-out of a particular service, the decision was made by the SMT and LA Executive body not to proceed. This identifies how crucial it is

to have the support of and engage with not just senior managers but also elected council representatives *prior* to carrying out any detailed spin-out feasibility studies.

5.2 Staff skills and spin-out benefits

The recognition that staff within the public services at the four LA spin-outs, did not always possess the requisite skills with which to deliver a successful spin-out business plan, transition or to run the spun-out service sustainably once it had fully separated from the LA was recognised across all four LAs. This was not done to disparage the staff, but was rather a process in assessing the strengths and weaknesses of the service delivery team, something that was seen as crucial in allowing the service to spin out successfully. The LAs essentially undertook strengths and weaknesses audits of the service delivery staff and it was felt that whilst the staff members were extremely capable in actually delivering the service, writing bids and working to contracts/performance targets; there was a more limited capability in relation to marketing skills, fundraising or in thinking in an unconventional or entrepreneurial way. This is understandable given that many of the staff had worked almost exclusively and for long periods in a LA environment. Recognition of staff business skills was a key aspect in deciding whether to spin out a service or not, and doubts about the business acumen of the service was one of the reasons why a decision not to spin out a service was made at one of the participant LAs. This finding supports prior research that has suggested that service delivery staff do not always possess the requisite business skills required to make a spin-out succeed (Simmons, 2008; Hall *et al.*, 2012a).

However, this was again not viewed as an insurmountable problem, and two of the LAs delivered business skills training to their staff in preparation for spinning out. This was also considered at one of the other LAs, but ultimately the decision not to spin out the service meant that such training was not pursued. The purpose of discussing this finding is not to suggest that no staff members working in public-sector services has the business skills to spin out their service. On the contrary, there are numerous examples of such staff existing and delivering extremely successful social enterprise spin-outs (the 'Care Plus Group' being a prime example). It is merely to highlight that rigorously identifying the strengths and weakness of a service staff team provides the best chance for delivering a successful spin-out, as skills gaps can be overcome through training or supplemented through the use of external expertise or mentors.

The participants discussed the perceived and actual benefits of spinning out from the LA. The importance of the independence that this would bring to services and their staff in delivering services that the users wanted and needed was seen as key. This independence would give the spun-out service opportunities to consult with users on service delivery, to seek more diverse funding streams and then to target this income flexibly within the service (Sesnan, 2001). It was also perceived that the spin-out process would free the service from having to operate within restrictive and bureaucratic LA structures (Miller *et al.*, 2012b), albeit restrictions that were often placed on the LA by central government requirements. This offers support to prior research in this area (LeGrand and Mutuals Taskforce, 2012; Hall *et al.*, 2012a), as the participants perceived that this

Recognition of staff business skills was a key aspect in deciding whether to spin out a service or not

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'empowerment' would allow the spun-out service to be more responsive to user and community needs and innovative in the services that they delivered. Finally, all four of the LA participants talked positively about the future of the services in question, whether they had been spun out, were in the process of spinning out, or whether an alternative route had been taken. For those services that had been or were in the process of spinning out, the participants articulated that the perceived benefits outlined above were already beginning to be seen within the services and that they were extremely positive about the future.

6. Recommendations

Recommendations for the future development of spin-out organisations and the design of policy to support them are presented below. They are intended to provide a guide to LAs seeking to spin out a public service, as well as to local and central government officials and policymakers who are exploring ways to support spin-outs either legislatively or financially.

1. Ensure there is a good business case and sufficient market demand for the new spin-out. Local Authorities wanting to spin out should also be aware of the current policy environment in which they operate, as this may hinder or support the spin-out process.

2. There is a need to engage with all stakeholder groups on a regular basis throughout the entire spin-out process. Internally this includes staff at all levels of the organisation, as well as service users. Furthermore, support from senior representatives of the local Council may facilitate the success of the spin-out. Externally, this includes trade unions, as well as other local voluntary and community organisations that may be affected by the spin-out.

3. Be aware that staff members are taking both a professional and personal risk in spinning out. Ensure that staff are aware of their employment and pension rights and keep the trade unions updated on such issues. Open and honest engagement with staff is crucial to ensuring buy-in to the spin-out process.

4. Recognise that service staff may not have the business, financial and management skills to set up and run a social enterprise. An appraisal of staff skills should be undertaken prior to the spin-out and staff should be encouraged to engage in training programmes to help them to 'skill up'. External support is also now widely available to help new spin-outs, including those from previous spin-outs who may be able to act as mentors.

5. There is a need to communicate regularly and engage with other relevant departments in the LA, particularly the legal, human resources and finance departments. Assess the legal implications and financial costs of spinning out and consider whether the necessary skills are present in these departments to proceed. If not then engage with suitable law and consultancy firms where appropriate to fill these skills gaps.

7. Summary

The spin-out of public services into social enterprises is a live topic in central and local government, as the ongoing recessionary climate and austerity drive forces a re-think on how public services are delivered. This report has outlined the experiences of four LAs that explored the spinning out of services. Two of the LAs have committed to spinning out the services in question, whilst the third is still in a transition period and the fourth LA has decided to commission the services out through an open tender. The research data suggests that there are a number of barriers to services being spun-out. These include the need to communicate regularly and effectively with *all* stakeholder groups (Simmons, 2008), but especially with LA Executive bodies, SMTs and service delivery staff. Consultation with the staff ensures that the spin-out is staff-led and ensuring buy-in with senior figures within the LA prevents time and resources being wasted on a spin-out proposal that will not be authorised. It is also important to engage service users in the process so as to allay any fears related to the impact that the spin-out may have on the service, as well as to ensure that the spin-out delivers the services that users and communities *actually* need (Cabinet Office, 2011; LeGrand and Mutuals Taskforce, 2012). This can be through consultation meetings or offers of user representative access to the governance structures through a 'dual-ownership' model (Gui, 1991). It is also important to engage with other external stakeholders such as TUs so that the financial and employment impacts on staff can be fully understood and explored.

A successful spin-out process relies on an honest appraisal of the service staff's skill set, particularly in relation to business acumen, as well as the in-house capabilities of other relevant LA departments (i.e. legal, finance). This not only prevents problems arising during the transition process, but also allows LAs to identify the external resources that may be needed in order to deliver a successful spin-out (i.e. management/legal consultancy, business skills training) (Simmons, 2008; Hall *et al.*, 2012b). This process is also beneficial when considering the volatile and fluid organisational environments in which spin-outs often occur (Addicott, 2012), as there is often a need to make parallel efficiencies in financial and staffing terms. An honest appraisal of staff capabilities allows for these efficiencies to be made without harming the long-term sustainability of the spin-out in question.

Finally, it is important for those planning and/or leading the spin-out to be aware of the policy environments that they are operating in, and the general market for their service in the private sector. The former allows the spin-out to access the various government support schemes that are available for staff-led spin-outs of services and also allows internal barriers in terms of securing political support and buy-in to be avoided.

It is still too early to judge whether these spin-outs or commissioning-out of services will be successful

The latter is key as it allows the design of a robust and sustainable business plan, which in turn is then persuasive in securing the political and stakeholder buy-in that is crucial to a successful spin-out. If all of the learning outcomes outlined above are utilised, there is no reason that a spin-out of a public service cannot be delivered, with all of the potential benefits that this can bring (i.e. independence, innovative and responsive services and financial freedom). It is still too early to judge whether these spin-outs or commissioning-out of services will be successful. However, the need to monitor the progress of these ventures is very important. As prior research has already outlined, the outputs, outcomes and impacts associated with spin-outs remain uncertain. Indeed, an evidence base urgently needs to be developed (Hall *et al.*, 2012a; 2012b). Future research with the four LA case study services could provide valuable insights into this area and potentially act as a useful knowledge-exchange resource that other LAs with similar plans could utilise.

Barriers & solutions to public sector spin-outs

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Appendices

Appendix A. Interview schedule

1. Can you tell me a bit about your role in the local authority and the spin-out process?
2. Why did you decide to spin out the service into a social enterprise?
3. Why do you think your service was suitable to spin out as a social enterprise?
4. What triggered the decision to spin out?
5. Who led the spin-out?
6. Has the social enterprise been established? Probe: If no, how far in the process is it? If yes, when was it established?
7. What benefits do you expect to achieve as a result of spinning out? (If already spun out, have these been achieved?)
8. What barriers did you face when setting up the social enterprise? Probe: access to resources/information, resistance from staff/ the local community/policymakers/professionals.
9. Did you overcome these barriers? If so, how?
10. How did local and national policy influence both your decision to spin out and the process of setting up the social enterprise?
11. Do you feel that staff within your organisation had sufficient knowledge and skills to establish and run the social enterprise? Probe: business, management, enterprise skills.
12. How much did the staff within the service being spun out 'buy in' to the social enterprise idea?
13. What has been the effect on and reaction from service users to the spin-out?
14. What additional resources did you require to set up the social enterprise? Probe: financial – start-up costs/legal expenses, knowledge – financial/management consultancy.
15. What advice would you give to other public services thinking of spinning out into a social enterprise?
16. Is there anything else that you want to tell me that you think is important/relevant?

Appendix B. Units of analysis list

1. Role in Spin-Out
2. Re-commissioning of Services
3. Outsourcing through Tender
4. Spin-Out Service Details
5. Budget Cuts & Efficiency Savings
6. External Spin-Out Knowledge Transfer
7. Spin-Out Rationale
8. Business Form
9. External Support
10. Options Appraisal
11. Service Staff Business Skills/Capacity
12. Internal Division/Tension
13. Service Decommissioning
14. Social Value Act
15. Staff 'Led' Spin-Out (ELM)
16. Potential Spin-Out Benefits
17. Need for Extra Resources
18. Employee Ownership
19. Transfer of Takings & Protection of Employment (TUPE)
20. Legal Barriers
21. Local Policy Context
22. National Policy Influence
23. Political Motivations
24. Lack of 'Will' from SMT
25. Transitions
26. Future Spin-Out Advice
27. Spin-Out Types
28. Unprescriptive Commissioning
29. Competition Law
30. Business Skill Training
31. Time Barriers
32. Service Staff Disappointment
33. Lack of Internal Spin-Out Expertise
34. Ensure Stakeholder Buy-in
35. Teckal Spin-Out Model
36. Business Case
37. Opposition from External Organisations
38. Political Barriers
39. User-Orientated Services/Engagement
40. External Environment
41. Interim/Staged Spin-Outs
42. Market Research/Awareness
43. Reduced Staffing/HR Barriers
44. New Knowledge
45. Changing Relationships
46. Staff Engagement
47. External Recruitment
48. Mentors
49. Social Mission/Values

London Councils' Capital Ambition was established in 2008 as London's improvement and efficiency partnership to direct £40 million to help London's local authorities deliver improved performance, efficiencies and savings to support innovative ways of working. Through funding from the London Councils' Capital Ambition programme, local authority-led projects across the capital have achieved cashable savings of more than £76 million and are on track to deliver savings of £357 million by March 2016. Governance of London Councils' Capital Ambition was agreed by the London Councils Leaders' Committee and the current programme is led by a cross-party board of elected members from five boroughs. The board has responsibilities for decision-making around the use of the programme's resources and for the oversight of the programme's delivery.

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