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**Title:** An on-going assessment of the state of the spin-out sector in England

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**Example citation:** Hazenberg, R. and Denny, S. (2014) An on-going assessment of the state of the spin-out sector in England. Paper presented to: *International Research Society for Public Management 16th Conference (IRSPM XVIII)*, University of Carleton, Ottawa, 09-11 April 2014.

**Version:** Presented version

**Official URL:** <http://www.irspm2014.com/index.php/irspm2014/IRSPM2014>  
<http://nectar.northampton.ac.uk/6599/>



# **An on-going assessment of the state of the spin-out sector in England**

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*Paper presented to the 18<sup>th</sup> IRSPM Conference, Ottawa – 9<sup>th</sup>-11<sup>th</sup> April 2014.*

## **Abstract**

*The provision of public services in England has received large amounts of policy attention over the last three decades. During this time there have been numerous and far-reaching public-sector reforms, which have resulted in less direct provision of public services by Local Authorities and an increased 'marketisation' of the public sector. However, whilst the spin-out sector in England is heterogeneous, much of the prior research on spin-outs is sector specific. Additionally, the growth of spin-outs, their ability to become sustainable and theory explaining the spin-out process has received little or no academic inquiry. This paper reports the initial analysis of survey data gathered in 2014 into the spin-out sector in England. A total of 201 spin-out organisations were identified and invited to participate, of which 66 responded. The data analysis revealed that the spin-out sector was growing in relation to turnover, profits and staffing levels and that this growth was mediated by the type of business model adopted. In addition, the role and importance of different stakeholders in the spin-out process was identified as in flux over time, with service-staff and service-users becoming more important the longer that the spin-out had been independent. The results are discussed in relation to the prior literature and data gathered in a 2013 survey.*

## **Introduction**

The provision of public services in England has been the focus of significant policy attention over the last few decades that have included extensive reforms to both the supply and demand sides of the market. This has led to a 'marketisation' of the public sector in which public services at both a national and local level have effectively been opened up to competition from the private and third sectors (Hall *et al.*, 2012b; Simmons, 2008). This market-based reform of public services has been implemented due to a desire to create more cost-efficient services and has been based upon the mantra that market mechanisms are the most effective means of delivering this goal. The reforms introduced have included legislative reforms and funding streams and in doing so, successive UK governments have encouraged the transfer of local authority staff into new employee-owned mutual organisations (also known as 'spin-outs'). 'Public service mutuals' have been defined as '...organisations which have left the public sector i.e. spun out, but continue to deliver public services and in which employee control plays a significant role in their operation' (LeGrand and Mutuels Taskforce, 2012:9). However, at the present time there remains a paucity of research (and specifically quantitative data) into the spin-out sector in the UK that identifies

the triggers for spinning-out, stakeholder engagement, the demographics of the sector and the needs and wants of spin-outs moving forwards. This is particularly pertinent at the current time as the next general election is only one year away. Indeed, current and reliable data can assist all political parties to make informed choices on the future of public service delivery when writing their election manifestos. This research reports survey data captured from spin-out organisations between November 2013 and March 2014 in an attempt to fill this knowledge gap.

## **Theoretical Framework**

### Background and triggers for spin-outs

During the late 1980's and early 1990's there was considerable debate amongst academics and policy-makers about the need for government to become more 'entrepreneurial', as it was felt that this would make government more democratic, less risk-averse and more dynamic (Osbourne and Gaebler, 1992). In the UK this led to the creation of Housing Associations in the late 1980's and New Leisure Trusts in the 1990's. Over the last decade there has been a desire to involve the third sector (and more specifically social enterprises) in the delivery of public services through what was termed the 'third-way' of welfare delivery (Haugh and Kitson, 2007). This has led to a growth in the number of public sector mutuals and social enterprises that deliver public services. Indeed, the English government is investing in public service mutuals (here on in referred to as 'spin-outs') through programmes such as the £10 million 'Mutuals Support Programme' and its precursor the Mutuals Pathfinder Programme (Le Grand and Mutuals Taskforce, 2012; Cabinet Office, 2011). There has also been specific support to the health and social care sectors through the 'Right to Request' and 'Right to Provide' initiatives (Department of Health, 2008a; 2009, 2011a). Indeed, the spin-out survey conducted by the Transition Institute in 2013 identified these two particular policy initiatives as the most effective in growing the spin-out sector (Hazenbergh et al., 2013).

There have also been other legislative changes introduced in recent years that have been designed to effect the procurement and commissioning elements of public service delivery.

The Localism Act 2011 (effective from April 2012) has provided opportunities for community groups to take over and run their local services (DCLG, November 2011). In addition, the passing of the Public Services (Social Value) Act into legislation (effective from January 2013) seeks to ensure that public procurement processes include provisions relating to social value (Teasdale *et al.*, 2012). Such policies do not however, directly prioritise social enterprises or mutuals over other providers; although they may indirectly prioritise them by providing performance related contract provision that is aligned with the triple-bottom line (economic, social and environmental) of third sector organisations.

Nonetheless, the aforementioned marketisation of the public sector means that spin-outs must compete with private and third sector organisations for contracts to deliver services. This competition leads to spin-out organisations having to engage with a multitude of stakeholders to be able to successfully compete in the marketplace and often involves the development of partnerships with these stakeholders (for example service-users). The need to engage in partnership building also occurs internally with the engagement of the service staff, which can include formally involving them in decision-making processes (Cabinet Office, 2011; Alcock *et al.*, 2012; Miller *et al.*, 2012a). This emphasis on partnership building means that a focus on multi-stakeholder partnerships is important in explaining the spin-out process.

### Partnerships in spin-outs

The focus on the Big Society and the need to create a robust and large civil society has meant that partnership formation and collaboration in the delivery of public services have become popular in recent years (Fenwick *et al.*, 2012). A partnership is a non-hierarchical relationship (at least formally) that involves common ownership over problems and a commitment to improve the efficiency of the organisations involved (Coulter, 1999; Gallant *et al.*, 2002). Partnerships can either involve a binding legal status that delineates set actions and outcomes (Rose, 1994) or can be based on more informal arrangements (Domberger *et al.*, 1997). The main benefit of a partnership arrangement is that it provides mutually-reinforcing skillsets that can be utilised by partners in the collective solving of a problem, and as such partnerships are viewed as highly dependent relationships (Steijn *et al.*, 2011).

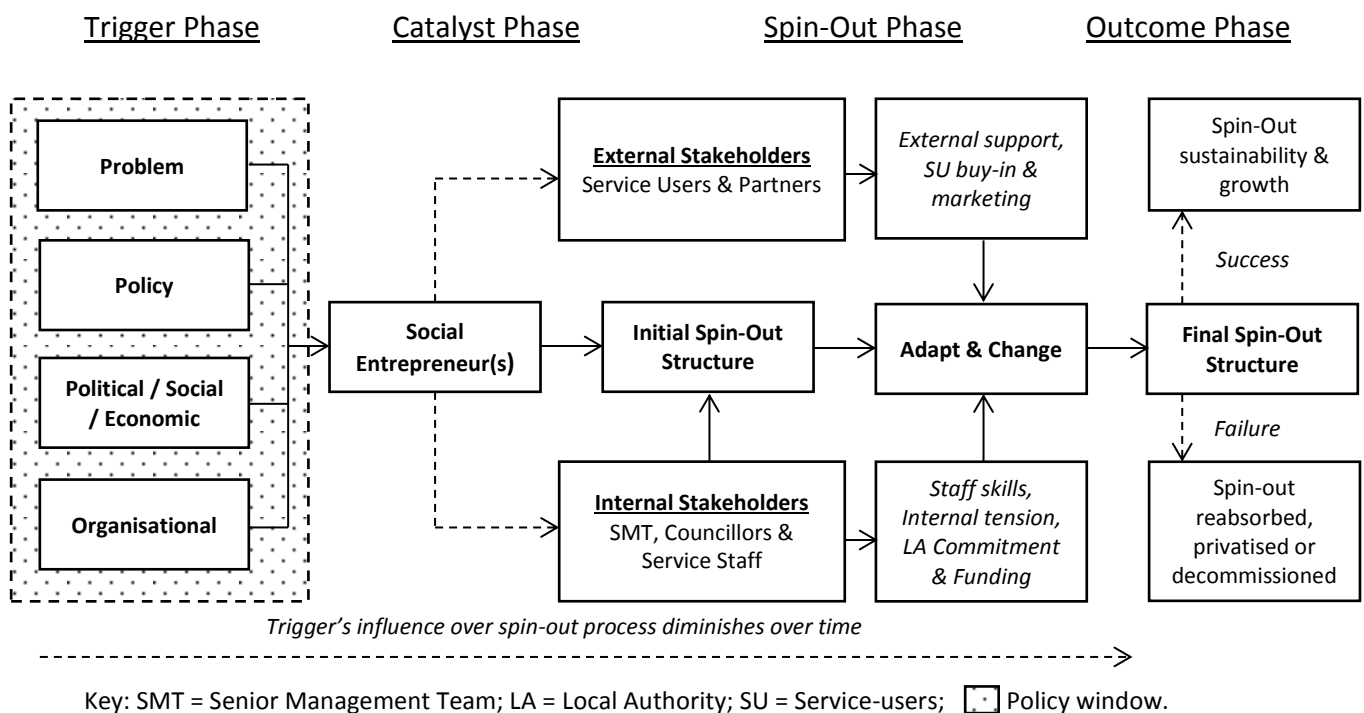
Prior research has also identified that partnerships allow multiple stakeholders to input into the running of the organisation (Roche, 2009).

In the UK partnerships have been used as a way to solve complex social problems, increase efficiency or develop more responsive public services (Hazenbergh and Hall, In Press). However, partnerships are not only with other organisations but also with service-users. Cahill (1996) argues that partnerships with service users/clients are based on a continuum that ranges from 'involvement' through to 'partnership'. Whilst 'Partnership' is arguably where all public services should seek to aim in relations with their beneficiaries, such a goal is often an overly idealised state that is often impracticable with the day-to-day running of a public service. Prior research has also sought to explain partnerships in relation to their origins, processes and governance (see: Lober, 1997; McQuaid, 2000; Savas, 2000; Takahashi and Smutny, 2002; Steijn et al., 2011; Cornforth et al., 2013; Hazenbergh and Hall, In Press). Indeed, Steijn et al. (2011) states that public/private partnerships are characterised by mutual coordination; shared risk and profit-making; and an organisational arrangement that facilitates such cooperation. These allow partnerships to make fiscal savings by becoming more efficient (McQuaid, 2000; Savas, 2000); added value through the joint enhancement of products/services (Steijn et al., 2011); and greater innovation through shared skills and expertise (Parker and Vaidia, 2001; Huxham and Vangen, 2005). The features of partnerships outlined by the research described above are also characteristic of spin-outs and as such in attempting to understand spin-outs we should examine the partnerships that establish them.

Managing these partnerships over time is key to the success of a spin-out (Hazenbergh and Hall, 2013; Hazenbergh and Hall, In Press) with different stakeholders having fluctuating importance in the spin-out during its transition from the public to the third sector. In theorising this transition, Hazenbergh and Hall (In Press) built upon prior research into partnership governance by Takahashi and Smutny (2002) and Cornforth et al. (2013) to develop a model of the spin-out process (see Figure 2.1 below). In this model a variety of trigger streams provide a window of opportunity for a public service to spin-out from the public sector. These triggers include the social problem requiring intervention (problem); the policy frameworks currently in place such as 'Mutual Pathfinders' (policy); the contemporary

environmental context such as the current global recession (political/social/economic); and the relevant local authority being open to spin-outs ('organisation'). These triggers create the opportunity space for spin-outs that is then seized upon and led by the social entrepreneur(s) within the service. The social entrepreneur(s) negotiate with and utilise the skills of various stakeholders to create a partnership that eventually leads to the design and spinning-out of a public service that subsequently succeeds or fails. In this model Hazenberg and Hall (In Press) theorise that the organisation trigger (local/parent authority) is the most important in the decision to spin-out, but that this importance relative to the other trigger streams diminishes within the partnership as the spin-out transitions out and becomes increasingly independent.

Figure 1 – Organisational change in the spin-out of public services:



Taken from Hazenberg and Hall (In Press).

## Summary

The prior research outlined has provided a theoretical overview of the spin-out sector in the UK. This overview has identified that there are numerous triggers involved in the decision of whether to spin-out a public service and that these triggers are in flux over time. The

research also identifies that once the decision to spin-out is made (and even before then) the importance of a multi-stakeholder approach to service design and delivery led by a social entrepreneur(s) is crucial to the chances of success. However, there remains a gap in our knowledge of the relative importance of these stakeholders at different times in the journey, the role that service-users play and the types of nuanced outcomes that spin-outs encounter (over and above success or failure). This research sought to fill these gaps and to provide general data relating to the current state of the spin-out sector and its future needs.

## **Research aims**

Based upon the literature outlined above and the survey conducted in 2013 the research study aimed to explore the following four main research aims.

1. What is the current state of the spin-out sector? Particularly in relation to organisational:
  - a. sector of operation
  - b. geographic reach
  - c. policy frameworks
  - d. turnover
  - e. profit margins
  - f. staffing
  - g. legal and governance forms.
2. What are the key triggers for public services spinning-out? Particularly in relation to:
  - a. service closure/privatisation
  - b. budget cuts
  - c. service management/staff/users
  - d. political support/policy frameworks
  - e. service performance
3. How important are different stakeholders on the spin-out process longitudinally?  
Particularly in relation to:

- a. parent authorities
  - b. elected officials
  - c. service management
  - d. service staff
  - e. service users
  - f. external experts
4. What are the main issues that spin-outs feel should shape the future of the sector?
- Particularly in relation to:
- a. political support
  - b. access to finance
  - c. commissioning and contracting
  - d. research
  - e. policy frameworks
  - f. public awareness

### Research design and survey

The research adopted a quantitative methodology in which data was gathered from spin-out organisations through the completion of a survey by either an organisation's chief executive or other senior management staff. The survey was completed either online (n = 36) or over the telephone (n = 30). The data was captured between November 2013 and March 2014 and represents a snapshot of the spin-out sector between these dates. The survey captured data in relation to the research aims outlined in Section 3.1.

### Participants

An intensive review of secondary data (website, online resources and publications) was conducted by staff at the Transition Institute in order to identify potential spin-out organisations that matched the Transition Institute's definition of a spin-out (see below). In total this review identified 201 organisations that were potential spin-outs, including housing associations and leisure trusts. An email explaining the purpose of the research and



a link to the online survey was sent out to all of these organisations inviting them to participate. Follow-up emails were then sent to organisations that had not completed the survey and these were then followed up with telephone calls in order to further explain the purpose of the survey and to encourage participation. In total 66 organisations out of the 201 identified completed the survey. This gave a response rate of 32.84%<sup>1</sup> and of these 66 organisations, 28 had participated in the 2013 'State of the Sector' survey.

### Analysis

All questionnaire data was entered into SPSS version 20.0 and all analyses were conducted using this software. Descriptive statistics were sought from the data and relationships between the organisational demographic data captured were also explored using cross-tabulation chi-squared tests. Chi-squared tests were also used to explore the relationship between organisational variables and organisational perceptions of future challenges. The relationship between organisational demographics and scale variables (i.e. organisational staffing changes over time) were explored using one-way and two-way ANOVAs. Finally, bivariate correlations were also used to assess the relationships between factors relating to spin-out growth.

## **Results**

As part of the survey, organisational demographic data was captured relating to the age of the spin-out and the organisation's sector and geographical scale of operation. An outline of this data is presented below in Table 1.

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<sup>1</sup> Some respondents did not answer all the survey questions, so some analyses have a value of  $N < 66$ .

Table 1 – Age, sector and scale				
Category/Sub-category		N	Range	Mean
Age (months)		63	3-254	63.68
Category/Sub-category		N (Total)	N	Percentage
Sector	<i>Leisure</i>	66	21	31.8%
	<i>Health</i>		19	28.8%
	<i>Social care</i>		12	18.2%
	<i>Other</i>		5	7.6%
	<i>Employment</i>		3	4.5%
	<i>Education</i>		3	4.5%
	<i>Children &amp; youth</i>		2	3.0%
	<i>Housing</i>		1	1.5%
Category/Sub-category		N (Total)	N	Percentage
Geographic scale	<i>Local</i>	66	29	43.9%
	<i>Regional</i>		25	37.9%
	<i>National</i>		6	9.1%
	<i>Multi-regional</i>		4	6.1%
	<i>International</i>		2	3.0%

NB. N < 66 as some questionnaire responses contained missing data.

The survey data in Table 1 reveals that the mean age of the spin-out organisation participants was nearly 64 months (5.3 years), although some organisations had existed since the early 1990s (the oldest organisation had been in existence for just over 21 years). A total of 47% of respondents operated in the health and social care sector, whilst a further 31.8% of the sample operated in the leisure sector. There were also a very small number of spin-out organisations in the children and youth services, employment, education, housing and 'other' sectors of public service delivery. The majority of respondents (81.8%) only operated at a local or regional level, which (as was identified in the 2013 survey) is understandable given that many would have spun-out from local authorities, primary care trusts (PCTs) or NHS foundations.

Data was also captured from the participant organisations relating to their experience of the spin-out process. The data captured related to the originating parent authority, the policy framework followed in the spin-out (if any), the main triggers involved in spinning-out and the relative importance of various stakeholders at each stage of the spin-out process. This data is outlined below in Tables 2, 3 and 4.

Table 2 – The spin-out process				
Category/Sub-category		N (Total)	N	Percentage
Parent authority	1. Local authority	65	33	50.8%
	2. PCT		19	29.2%
	3. Central government		7	10.8%
	4. NHS foundation		3	4.6%
	5. Other		3	4.6%
Category/Sub-category		N (Total)	N	Percentage
Policy framework	1. None	66	30	45.5%
	2. RtR		18	27.3%
	3. Mutual pathfinders		11	16.7%
	4. RtP		4	6.1%
	5. Other		3	4.5%

NB. N < 66 as some questionnaire responses contained missing data.

The data in Table 2 reveals that the majority of spin-outs had spun-out from local/regional bodies (84.6%), whilst nearly half had not followed any specific policy framework. Whilst this at first appears surprising it is in part related to the lack of spin-out policy frameworks prior to 2007 (RtR). If this is controlled for by excluding any organisations that spun-out prior to 2007 then the number of organisations not following a specific policy framework drops to only 20.5% (N = 44). In relation to the ‘triggers’ for spinning-out, the participants were asked to rate the importance of each of the below 13 variables on a five-point Likert scale, ranging from 1 (no impact at all) through to 5 (very high impact). The results are presented below in Table 3.

Table 3 – Spin-out triggers			
Trigger	N	Mean	SD
Service put out to tender	62	1.68	1.16
Service facing closure	64	2.27	1.44
Service restructuring	65	2.71	1.38
<b>Budget cuts</b>	<b>63</b>	<b>3.21</b>	<b>1.42</b>
<b>Parent authority decision</b>	<b>65</b>	<b>3.05</b>	<b>1.58</b>
<b>Service management decision</b>	<b>63</b>	<b>3.37</b>	<b>1.38</b>
Service staff decision	63	2.43	1.27
Service beneficiaries decision	65	1.91	1.20
Improve staff conditions	64	1.77	0.97
Policy framework	64	2.83	1.56
Government finance	63	2.63	1.34
Local political support	63	2.95	1.26
Service ineffective	60	2.18	1.21

NB. N < 66 as some questionnaire responses contained missing data.

The results shown above in Table 3 identify that the main triggers for spinning-out were budget cuts, a decision made by the parent authority and/or a service management decision. The need to restructure a service, the existence of policy frameworks and local political support also all scored highly. In relation to the longitudinal importance of stakeholders in the spin-out process the participants were asked to rate the involvement of the parent authority, elected officials, service management, service staff, service-users and external stakeholders (e.g. consultancy firms) during the decision to spin-out, the design of the spin-out service, and in the strategic management of the spin-out. This allowed data to be captured in relation to the theoretical model proposed in Section 2 that provides an overview of the spin-out process (Figure 2.1 – Page 10). This was done utilising a five-point Likert scale that ranged from 1 (not involved at all) through to 5 (fully involved). Repeated measures ANOVAs were conducted to assess changes in the involvement of various stakeholders throughout the spin-out process in relation to strategic decision-making and the results are presented below in Table 4.

Table 4 – Stakeholder engagement					
Stakeholder	N	Decision to spin-out	Design of spin-out	Strategic operation of spin-out	F
Parent authority	64	<b>4.16</b>	3.67	1.81	109.52 ***
Elected officials	64	3.16	2.64	1.87	26.29 ***
Service management	64	<b>4.17</b>	<b>4.49</b>	<b>4.77</b>	10.38 ***
Service staff	64	3.58	3.73	<b>4.45</b>	20.08 ***
Service-users	65	2.71	2.78	3.42	14.52 ***
External stakeholders	62	3.45	3.52	2.32	36.47 ***

NB. N < 66 as some questionnaire responses contained missing data. \*\*\* =  $p < .001$ .

The results outlined in Table 4 identify that the involvement of individual stakeholder groups throughout the spin-out process varied over time. During the decision to spin-out the parent authority and the service management were the most involved stakeholder groups. However, the parent authority's involvement in the spin-out declined over time ( $p < .001$ ), whilst throughout the whole process the service management remained very involved ( $p < .001$ ) and this level of involvement only increased once the service had spun-out. The same process also occurred for both the service staff ( $p < .001$  - although their relative involvement was not as high as the service management) and service-users ( $p < .001$  -

although their involvement was less than the service staff). Finally, the involvement of external stakeholders such as consultancy firms also declined over time ( $p < .001$ ).

The participants also provided information surrounding their sustainability in relation to their sources of income, turnover and profitability changes since leaving their parent authority. The participants were asked to provide turnover and profit margins as accurately as they could for both when they spun-out (Time 1) and the present time (Time 2). Participants were also asked to rank their income sources from 1 (main source of income) to 6 (least important source of income). An outline of this data is provided below in Table 5.

<b>Table 5 – Income and sustainability</b>				
Category/Sub-category		N	Mean	SD
Main sector of trade	1. Public	59	1.85	1.08
	2. Consumers	58	2.72	1.52
	3. Grants	56	3.05	1.74
	4. Private	52	3.67	1.61
	5. Third Sector	52	4.15	1.13
	6. Other SEs	50	4.92	1.07
Category/Sub-category		N	Mean at spin-out	Mean at present (2014)
Turnover (£)		51	£13.28m	£19.06m
Average change				+ £5.78m **
Category/Sub-category		N	Mean at spin-out	Mean at present (2014)
Profitability (£)		44	£169,356	£463,535
Average change (%)				+ £294,179 **

NB. N < 66 as some questionnaire responses contained missing data. \*\* =  $p < .01$ .

The data in Table 5 shows that trade with the public sector remains the number one income source for spin-outs, with trade with consumers (i.e. personal budgets) and grant funding being the second and third most important. Interestingly, trade with other SEs or third sector organisations was the least important source of income on average for spin-outs. Paired sample t-tests were also conducted to assess the changes over time in organisational turnover and profitability since spinning-out. The results identify that on average spin-outs have increased their turnover by £5.78 million ( $p < .01$ ) since spinning-out and that this has also led to an increase in profitability/surplus of £294.179 per annum ( $p < .01$ ). Data was also captured in relation to staffing-levels. Paired-sample t-tests were undertaken to assess the

longitudinal change in staffing levels since spinning-out for full-time, part-time and voluntary staff. An outline of this data is provided below in Table 6.

<b>Table 6 – Staffing, income and sustainability</b>					
Category/Sub-category		N	Mean at spin-out	Mean at present (March 2014)	Average change
Staffing levels	Full-time	61	315.80	455.10	+ 139.30 (NS)
	Part-time	61	122.85	177.77	+ 54.92 (NS)
	Volunteers	57	42.63	74.58	+ 31.95**

NB. N < 66 as some questionnaire responses contained missing data. NS = non-significant.

The data provided in Table 6 identifies that on average spin-outs have significantly increased their staffing levels since spinning-out, with an average increase in staffing of 44.11% for full-time staff ( $p = .14$ ); 44.70% for part-time staff ( $p = .13$ ); and 74.94% for volunteer staff ( $p < .01$ ). Whilst only the increase in volunteering was statistically significant, the data in Tables 4.5 and 4.6 suggests that spin-outs are substantially increasing their turnover, profit margins and staffing levels following spinning-out. The respondents were also asked to provide data relating to their legal structure and governance model. This data is outlined below in Table 7.

<b>Table 7 – Legal and governance models/structures</b>				
Category/Sub-category		N (Total)	N	Percentage
Legal structure	1. CLG	65	25	38.5%
	2. CIC		22	33.8%
	3. CLS		8	12.3%
	4. IPS		8	12.3%
	5. Charity		2	3.1%
Category/Sub-category		N (Total)	N	Percentage
Governance model	1. BD with Community	64	26	40.6%
	2. BD with staff		16	25.0%
	3. BD External Stakeholders		11	17.2%
	4. BD (Management Only)		10	15.6%
	5. Shadow Board		1	1.6%

NB. N < 66 as some questionnaire responses contained missing data. CLG = company limited by guarantee; CLS = company limited by share; CIC = community interest company; IPS = industrial provident society; BD = Board of Directors.

The data in Table 7 demonstrates that the majority of spin-outs classed themselves as either CLG or CLS organisations (50.8%), whilst those adopting the CIC organisation form increased

from 2013 levels (11.6%) to 33.8% of all organisations sampled. Interestingly and unlike the data from the 2013 survey, the number of boards that involved the community (i.e. beneficiaries) had increased from 10.4% to 40.6% of respondents. This data suggests that new or existing spin-outs are adopting or changing to the CIC legal form and also adopting more open governance structures.

Data was also captured in relation to key organisational concerns, opinions of commissioning frameworks and of the impact that the Public Services (Social Value) Act would have on commissioning. The respondents were asked to state their level of concern in relation to six statements on a five-point Likert scale ranging from 1 (not worried at all) through to 5 (it is my main concern). The participants were also asked to rate the commissioning framework's 'fit' with public service mutuals on a five-point Likert scale (1 = it does not capture it at all; 5 = it completely captures it); as well as their opinion of how much the Public Services (Social Value) Act would impact commissioning (1 = none; 5 = it will transform it). The data for this is displayed below in Table 8.

<b>Table 8 – Key spin-out concerns and commissioning framework 'fit'</b>						
<b>Q: How would you value some of the challenges faced by current and prospective spin-outs? (%)</b>						
Statement	N	Not worried at all	A bit worried	Worried	Very worried	It's my main concern
1. Tendering under a PbR scheme	60	43.3%	30.0%	20.0%	5.0%	1.7%
2. Securing contracts	60	16.7%	26.7%	21.7%	16.7%	18.3%
3. Access to finance	61	24.6%	39.3%	11.5%	18.0%	6.6%
4. Measuring your social impact	61	49.2%	36.1%	9.8%	4.9%	0%
5. Transfer of personnel	62	46.8%	33.9%	9.7%	6.5%	3.2%
6. Consolidation and growth	61	27.9%	31.1%	13.1%	19.7%	8.2%
<b>Q: To what extent do you consider that the current commissioning framework captures the potential for public service delivery of spin-outs? (%)</b>						
N	It does not capture it at all	It captures it a little	It captures it a fair amount	It captures it a lot	It captures it completely	
57	24.6%	49.1%	17.5%	8.8%	0%	
<b>Q: To what extent do you think the Public Services (Social Value) Act 2012 will change commissioning practices in favour of spin outs?</b>						
N	None	A little	A fair amount	A lot	It will transform it	
57	8.8%	56.1%	22.8%	10.5%	1.8%	

NB. N < 66 as some questionnaire responses contained missing data.

The data displayed above in Table 8 shows that securing contracts was the most significant worry for spin-outs (mean value = 2.93) followed by consolidation and growth (mean value = 2.49) and access to finance (mean value = 2.43). Interestingly, nearly three-quarters of respondents believed that the commissioning framework captured the potential for PSMs either ‘a little’ or ‘not at all’, whilst over half felt that the SVA would have limited impact on commissioning. The participants were asked what they would like to see in political party’s general election manifestos for 2015. This was done on a yes/no basis against the below seven statements. Table 9 outlines the findings.

<b>Table 9 – Key spin-out concerns and commissioning framework ‘fit’</b>			
<b>Q: How would you value some of the challenges faced by current and prospective spin-outs? (%)</b>			
Statement	<i>N</i>	Yes	No
1. More concrete support in the commissioning process for spin-outs	63	87.3%	12.3%
2. More political support for spin outs	59	84.1%	15.9%
3. More access to public funding for spin outs	64	76.6%	23.4%
4. More awareness in the public domain about spin outs	63	76.2%	23.8%
5. Development/promotion of policy frameworks	61	57.4%	42.6%
6. Development of road maps/toolkits for spinning out	63	50.8%	49.2%
7. More research into spinning out	62	41.9%	58.1%

NB. *N* < 66 as some questionnaire responses contained missing data.

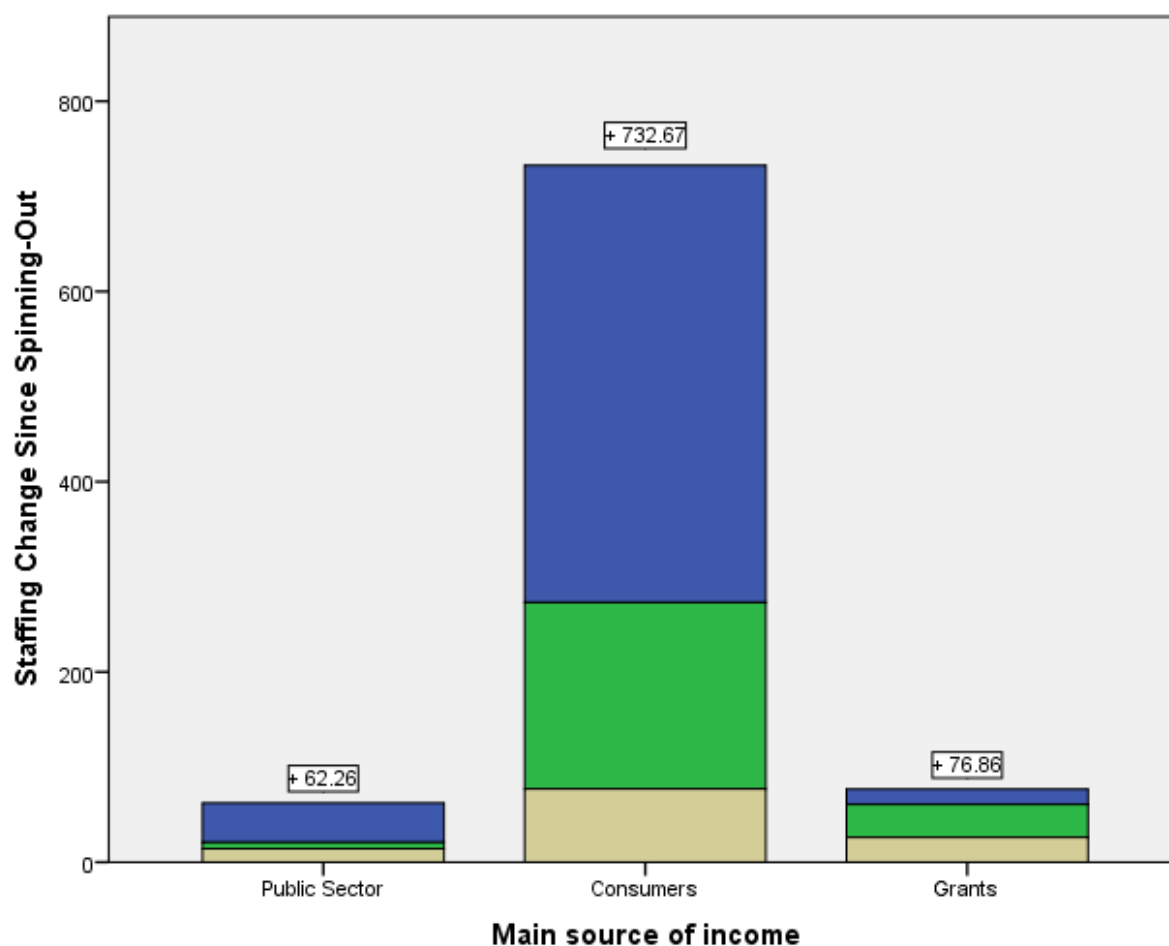
The data in Table 9 identifies that the main areas that spin-outs want to see addressed are in relation to political support for spin-outs and more concrete support in the commissioning process. There was also support from around three-quarters of spin-outs for increased access to funding and a campaign to raise public awareness of spin-outs. Disappointingly for the author, nearly 60% of respondents did not think that further research into the sector was necessary!

One-way ANOVAs were conducted in order to explore the relationship between ‘Main Sector of Trade’ (i.e. health), ‘Geographical Scale of Operation’ (i.e. local), ‘Policy Framework Adopted’ (i.e. RtR), ‘Organisational Legal Form’ (i.e. CIC) and ‘Governance Structure’ (i.e. board with staff representation’, with changes in staffing, turnover and profitability. No statistically significant relationships were identified, suggesting that these were not important factors in shaping organisational growth. The data from the 2013 survey had



suggested that there was a link between 'Main Sector of Trade' and growth in staffing levels. The 2014 survey had captured additional data in this area that broke staffing levels down into full-time and part-time staff, as well as volunteers. In addition, data was also captured relating to changes in turnover and profitability, which allowed for analysis to be conducted into the relationship between main sector of trade and these three variables. One-way ANOVAs were conducted to explore these relationships and Figures 2, 3 and 4 below outline the results.

Figure 2 – Staffing change over time by main sector of trade:

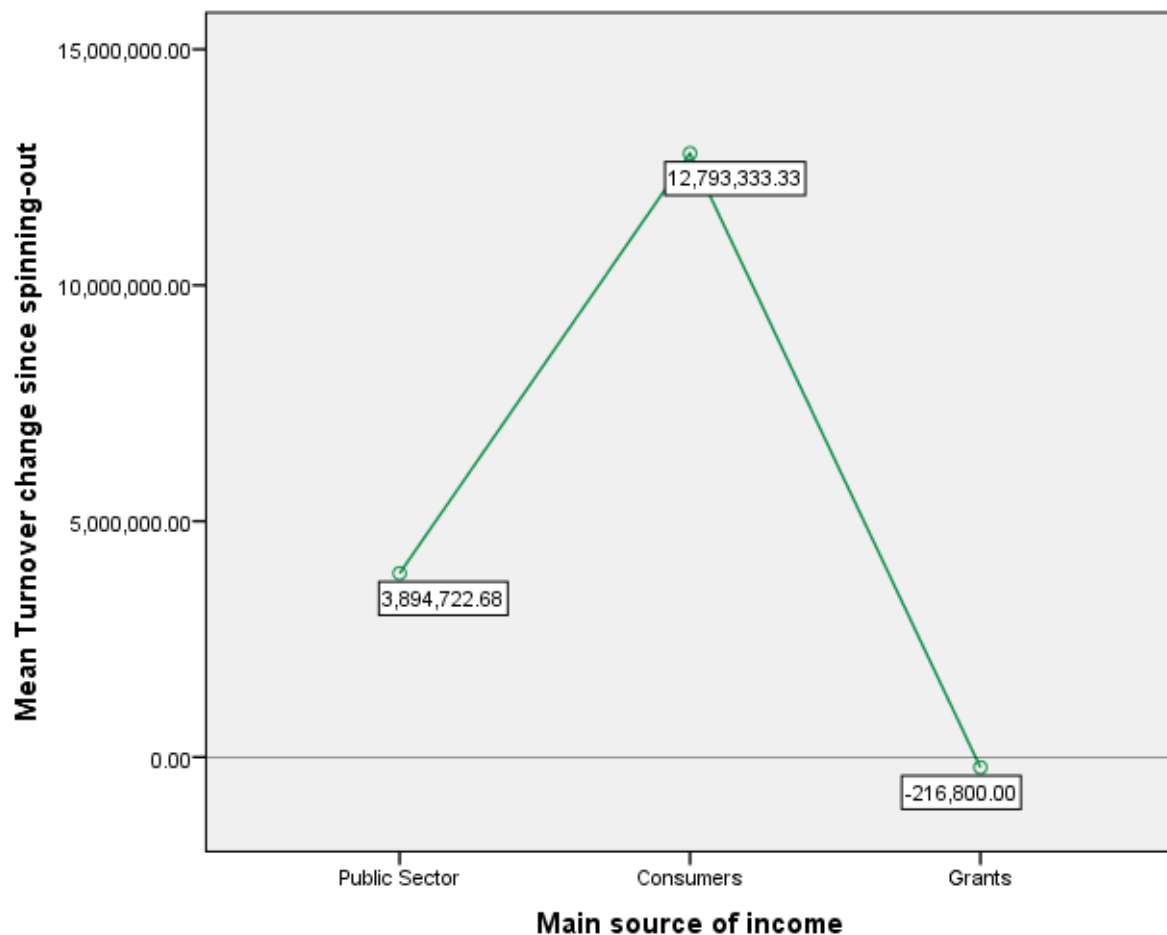


Key: ■ = FT Staff; ■ = PT Staff; ■ Volunteers. NB. Organisations that trade with the private or third sectors were excluded from the analysis due to low sample numbers ( $N > 5$ ).

Figure 2 illustrates that there was a relationship between the main sector of trade and growth in staffing levels, with spin-outs whose main source of income was from consumers

having an average increase in staff (including volunteers) of 732. This compared with only 62.26 and 76.86 for those spin-outs that sourced their main income from trade with the public sector or grants respectively. However, caution needs to be applied here as the relationships for FT staff ( $p = .31$ ;  $N = 52$ ) and PT staff ( $p = .22$ ;  $N = 52$ ) were insignificant. In relation to volunteers the relationship was significant ( $p < .05$ ;  $N = 49$ ). This analysis was repeated for changes in organisational turnover levels since spinning-out. Figure 3 below outlines the findings of this analysis.

Figure 3 – Turnover change over time by main sector of trade:

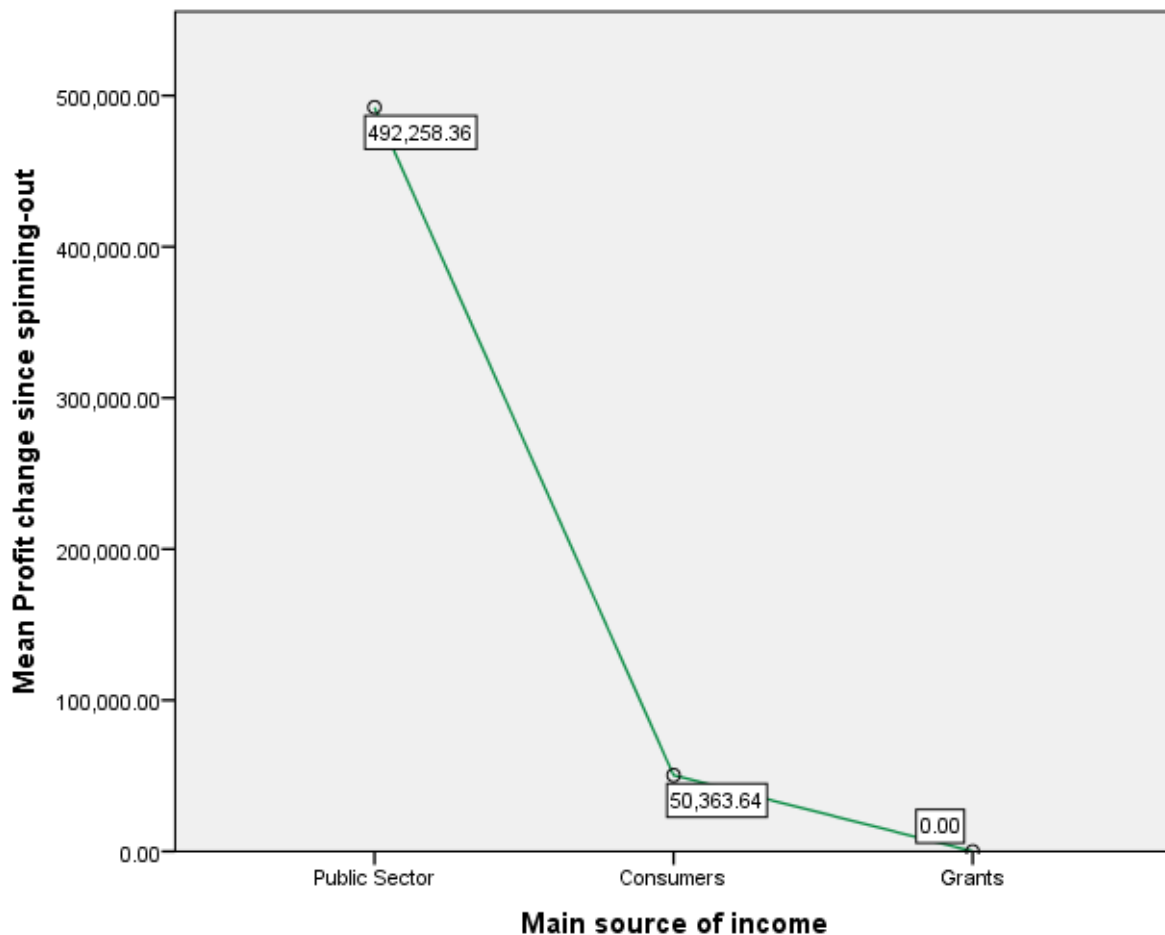


NB. Organisations that trade with the private or third sectors were excluded from the analysis due to low sample numbers ( $N > 5$ ).

The results identified in Figure 3 show that spin-outs whose main source of income came from consumers had experienced greater turnover growth (+ £12.79 million) than spin-outs for whom the main source of income was public sector contracts (+ £3.89 million), or indeed grants (- £216,800) that had actually lost money. However, this relationship was not

statistically significant ( $p = .26$ ;  $N = 45$ ) so caution needs to be applied when viewing these results. This analysis was then repeated for changes in organisational profit levels since spinning-out and the results are presented below in Figure 4.

Figure 4 – Profit change over time by main sector of trade:



NB. Organisations that trade with the private or third sectors were excluded from the analysis due to low sample numbers ( $N > 5$ ).

Interestingly, and unlike the data outlined above in Figures 2 and 3, the analysis demonstrated in Figure 4 reveals that spin-outs whose main income came from the public sector had the largest profitability increase since spinning out (+ £492,258.36), compared with those spin-outs who derived the majority of their income from consumers (+ £50,363.64) or grants (no increase). This relationship was nearly statistically significant ( $p = .05$ ;  $N = 40$ ). Bivariate correlational analysis was also undertaken in order to explore the relationships between organisational changes in staffing, turnover, profit levels and the length of time since spinning-out. The results are displayed below in Table 10.

Table 10 – Correlations for age and growth							
Factor	Statistic	Age	FT Staff	PT Staff	Vol. Staff	Turnover	Profit
Age	<i>r</i>	1.000	.203	-.036	<b>.356**</b>	<b>.462**</b>	-.162
	<i>N</i>	63	58	58	55	48	41
FT Staff	<i>r</i>	.203	1.000	<b>.271*</b>	<b>.376**</b>	<b>.531**</b>	.251
	<i>N</i>	58	61	61	57	50	43
PT Staff	<i>r</i>	-.036	<b>.271*</b>	1.000	<b>.346**</b>	.100	.204
	<i>N</i>	58	61	61	57	50	43
Vol. Staff	<i>r</i>	.356**	.376**	.346**	1.000	.367*	-.002
	<i>N</i>	55	57	57	57	47	40
Turnover	<i>r</i>	<b>.462**</b>	<b>.531**</b>	1.000	<b>.367*</b>	1.000	<b>.458**</b>
	<i>N</i>	48	50	50	47	51	44
Profit	<i>r</i>	-.162	.251	.204	-.002	<b>.458**</b>	1.000
	<i>N</i>	41	43	43	40	44	44

NB. N < 66 as some questionnaire responses contained missing data. \* =  $p < .05$ ; \*\* =  $p < .01$ .

The results identified in Table 10 show that turnover was the most important factor in driving growth, and that it was positively correlated with organisational age ( $r = .462$ ;  $p < .01$ ). In addition, turnover drove staffing increases as it was positively correlated with changes in full-time staffing levels ( $r = .531$ ;  $p < .01$ ); and voluntary staffing levels ( $r = .367$ ;  $p < .05$ ). Unsurprisingly, increases in turnover were positively correlated with profit-levels ( $r = .458$ ;  $p < .01$ ), whilst changes in part-time staffing levels were also correlated with changes in full-time staffing levels ( $r = .271$ ;  $p < .05$ ). Finally, there was a positive correlation between organisation age and voluntary staffing levels, suggesting that the older a spin-out became, the more they utilised voluntary staff ( $r = .356$ ;  $p < .01$ ).

## Discussion

### Overview

The data analysis revealed some interesting findings in relation to the state of the spin-out sector in 2014, which offered support to the findings of the previous 'State of the Sector' survey in 2013. The ongoing dominance of the leisure, health and social care sectors has continued into 2014, with 78.8% of spin-out respondents emerging from these sectors (2013 levels - 79.6%). As was noted last year, this is unsurprising considering the policy frameworks that have existed in these sectors, particularly the RtR and RtP initiatives. These results suggest public funding initiatives and policy frameworks can be very beneficial in driving the

development of spin-outs (Hazenbergh, 2013). The small number of spin-out respondents from the education, employment, housing, and children and youth sectors also points to a need to develop awareness (both politically and publically) of spin-outs in the non-leisure, health and social care sectors (Burns, 2012). In addition, the average age of the spin-out organisations was just over 5 years, which represented an increase over the 2013 survey results of 6 months (understandable given that half of the 2013 respondents also contributed to this survey). This year-on-year growth and survey retention also demonstrates that many spin-outs are surviving their transition out of the public sector and becoming sustainable.

Over four-fifths of the spin-outs (81.8%) operated at a local or regional level. Again, and as was noted in last year's survey this is understandable considering that most of the spin-outs (83.8%) had spun-out of Primary Care Trusts, NHS Foundations and local authorities. In an almost identical result to the 2013 survey (45.3%), 45.5% of respondents had not followed any specific policy framework in spinning-out (Hazenbergh, 2013). However, this result was skewed by the high proportion of leisure spin-outs ( $N = 21$ ) that participated in the study, many of whom had spun-out in the 1990's before any policy frameworks existed in relation to spin-outs. Indeed, when these organisations were removed from the dataset the number of organisations that spun-out without any policy assistance dropped to just over 20%. As was noted above, this suggests that the awareness of policy frameworks is generally good, but that more could be done to ensure that all public sector staff are aware of their service delivery options (Burns, 2012). For those spin-outs that had followed a policy framework in spinning-out, over 90% had done so through the RtR, RtP and Mutual Pathfinders policy programmes, which lends support to prior research that identified the importance that intensive political and financial support can have in this area (Miller *et al.*, 2012a).

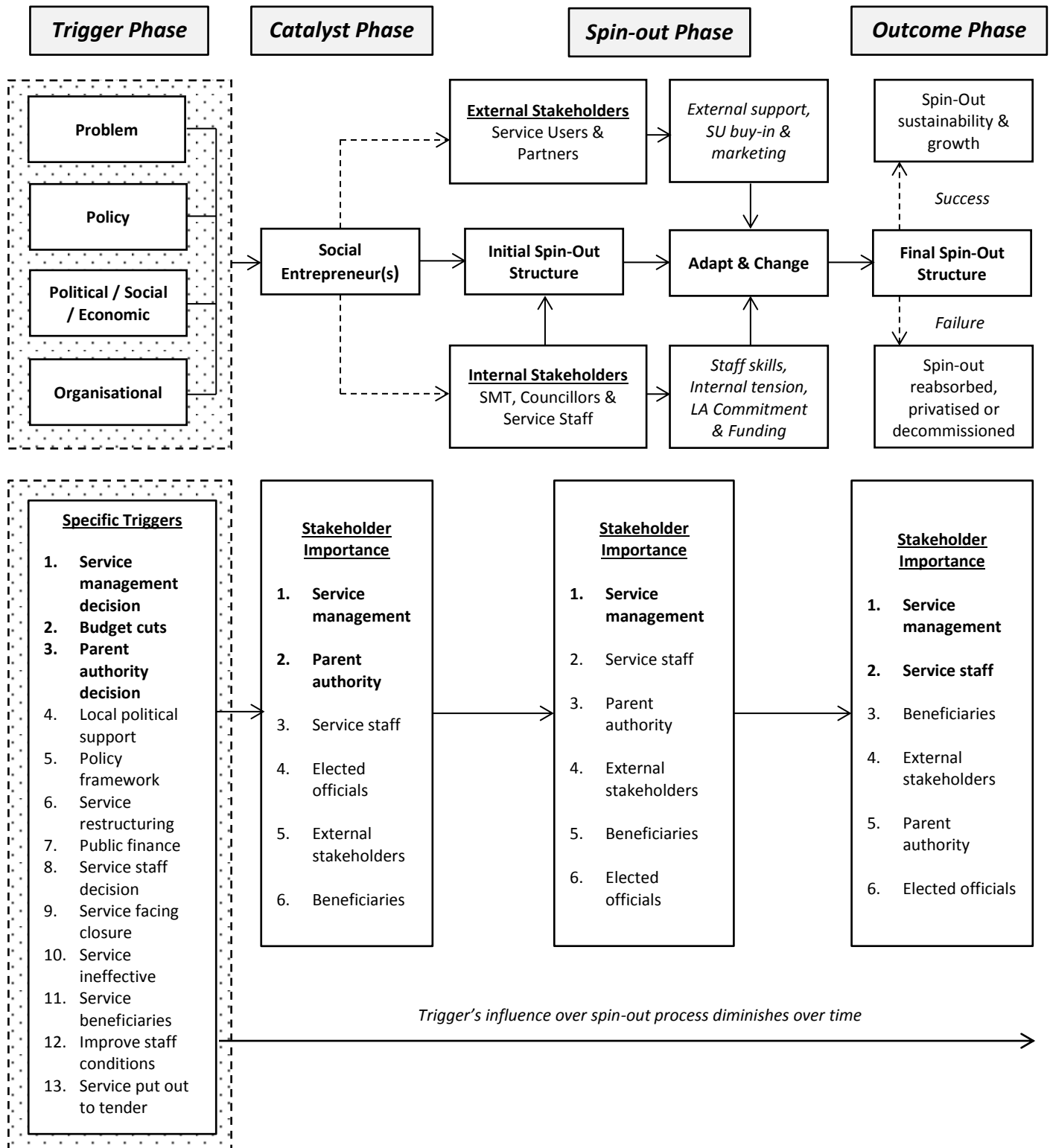
### Triggers and stakeholders

In relation to the 'triggers' for spinning-out, the survey data reveals that the most important factors in driving spin-outs were budget cuts, or a decision from the parent authority or service management. Perhaps surprisingly the threat of a service being put out to tender had not driven decisions to spin-out and nor had demand from service beneficiaries. This latter

point is interesting as it suggests that decisions to spin-out are not made by service beneficiaries and offers support to prior research that questioned how much service beneficiaries are really engaged in the spin-out process (Simmons, 2008). However, the relative importance of and engagement of different stakeholders throughout the spinout process substantially changed over time, with parent authorities and elected officials becoming less important, whilst service staff and service-beneficiaries became increasingly important the further along the spin-out 'journey' the service was ( $p < .001$ ).

This suggests that the prior research by Simmons (2008) and the data from last year's survey (Hazenbergh, 2013) that questioned the *de facto* involvement of service-users are not entirely accurate. Indeed, the situation is more nuanced than this. Beneficiaries and to a lesser extent service staff are less involved (or excluded) in the decision to spin-out, but once this decision is made they are increasingly involved in strategic decision-making. This offers support to prior research that identified the importance of engaging service staff but suggests that this need (and *de facto* engagement) may be in flux (Cabinet Office, 2011; Alcock et al., 2012; Miller et al., 2012a). Unsurprisingly, throughout the whole process of spinning-out, the service management remain the key decision-makers. However, the involvement of multiple stakeholders at different stages of the spin-out process demonstrates that spin-outs are operating as partnerships (Roche, 2009). Figure 5 below illustrates this.

Figure 5 – Stakeholder involvement in the spin-out journey:



Key: SMT = Senior Management Team; LA = Local Authority; SU = Service-users; = Policy window.

Adapted from Hazenberg and Hall (In Press).

Figure 5 illustrates an adaptation to the model of the spin-out propose as originally proposed by Hazenberg and Hall (In Press). In this model Hazenberg and Hall (In Press) propose that whilst wider macro-economic and socio-political factors influence the decision to spin-out, the final decision is driven by a number of 'triggers' that provide the 'collaborative window' of opportunity for social entrepreneurs within the public service to spin-out. This all takes place within a 'policy window' (Kingdon, 1995) in which policy frameworks exist that facilitate this type of collaborative action. The creation of these frameworks is often driven by wider exogenous factors (i.e. recessions and spending cuts) (Gray, 1989). The model also proposed that once this decision had been made, the parent authority and the triggers that drove the decision to spin-out became less important over time (Hazenberg and Hall, In Press). The data gathered in this research study suggests that the key triggers for most spin-outs are decisions made by parent authority and service management teams, which are often driven by budget cuts. Secondary to this the importance of existing policy frameworks (policy windows) and local political support for spinning-out are also important. The data also offers support to the model proposed by Hazenberg and Hall (In Press) by suggesting that the importance of the parent authority diminishes over time and that the key stakeholders within the spin-out become the service staff and beneficiaries, alongside the management. However, the degree to which service staff and particularly service-users become partners as opposed to merely being involved remains unclear (Cahill et al., 1996).

### Income and growth

As in 2013, the survey data around trade income was very interesting and demonstrated that the primary source of income for the majority of spin-outs was the public sector through contracts. This was then followed by direct trade with consumers and grant funding. The figures in relation to turnover and profit making were also extremely insightful and demonstrated that the spin-out sector as whole was in growth. Average turnover had increased since spin-out by £5.78 million ( $p < .01$ ) and profit margins since spin-out had increased by an average of £294, 179 ( $p < .01$ ). This demonstrates that spin-outs have significantly grown their turnover since spin-out, at an average rate of +43.52%. When the average age of the spin-outs is taken into account (5.31 years) this represents an annual



growth rate of 8.2%. Crucially, they are also delivering this turnover growth profitably. This growth in turnover and profits has also driven recruitment at the spin-out participants, with an average increase in staffing (FT, PT and volunteers) of +234.04 persons. This was split between FT staff (+139.30, +44.11%), PT staff (+54.92, +44.70%) and volunteers (+31.95, +74.94%,  $p < .01$ ). Whilst only the growth in volunteering was statistically significant, it still represents a relatively large increase in employment per organisation of +66.86%. Unsurprisingly, analysis of the data also revealed that the age of a spin-out was a key determinant of the level of growth experienced by a spin-out, as it was positively correlated with turnover and voluntary staffing growth ( $p < .01$ ).

The 2013 survey data had also suggested that those spin-outs that primarily sourced their income from consumer trade experienced higher growth than their counterparts (Hazenbergh, 2013). The 2014 data in part backed this up, with consumer-trading spin-outs experiencing higher growth in FT staffing, PT staffing and volunteer staffing. However, only the latter relationship was statistically significant ( $p < .05$ ). Consumer-trading spin-outs also delivered higher growth in turnover than their counterparts whose main income was derived from the public sector or through grant funding, with growth of +£12.79 million compared to public-trading (+£3.89 million) and grant-funded spin-outs (-£216,800). However, again this relationship was non-significant and so caution needs to be exercised in interpreting these results. However, contrary to the results outlined above it was those spinouts that traded primarily with the public sector that experienced the greatest growth in profits (+£492,258), compared with consumer-trading spin-outs (+£50,364) and grant funded spin-outs that had delivered no profit increase ( $p = .052$ ). It is difficult to explain why there may be this difference in growth for spin-outs with different primary income models. However, the much larger (and profitable) growth in turnover for consumer-trading spin-outs *suggests* that the need to be more demand-focused leads to greater service and income growth (this is only an assumption based upon non-statistically significant trends in the data).

### Organisational form and governance

The survey also captured data from participants about their legal structures and governance arrangements. The vast majority of spin-outs (84.6%) had adopted a limited company legal

form (CLG, CLS or CIC). Whilst there was a growth in the number of organisations adopting the SE specific legal form (CIC) from 24.5% (2013) to 33.8% (2014) this still represented only one-third of the sample. This finding suggests that the CIC legal form is not adopted by the majority of spin-outs (LGG, 2011). Whilst the 2013 survey had identified a distinct lack of beneficiary engagement at board level (10.4%), the current survey identified a growth in the number of boards that had service-user involvement (40.6%). In attempting to ascertain whether this was due to the new 2014 sample (only 42.42% had participated in the 2013 survey), analysis was conducted on only those spin-outs that had participated in the 2013 survey ( $N = 28$ ). The results identified that beneficiary involvement at board level had grown from 7.7% to 42.9%, suggesting that there had been a significant shift in governance structures at these organisations over the previous 12 months. This offers support to the model proposed by Hazenberg and Hall (In Press) and refined in this paper that service-user engagement increases as the spin-out matures. The result could also be related to a growing perception amongst spin-out management and staff that service-user engagement is important. It will be interesting to see in future years whether this trend continues.

The respondents were also surveyed about their concerns for the future in six areas. These were PbR contracting; the challenge of securing future contracts; access to finance; measuring social impact; the transfer of personnel; and consolidation and growth. Compared to the 2013 survey results there had been a shift away from concern about PbR contracting towards consolidation and growth, securing contracts and access to finance. This effectively shows that spin-outs are concerned about sustainability and their position in the market and offers support to prior research conducted in this area (Hall *et al.*, 2012b; Miller and Millar, 2011). These findings were also supported by the data relating to spin-out 'needs and wants' in 2015 general election manifestos. The majority of spin-outs (75%+) were keen to see more support for spin-outs in commissioning (access to contracts) and more public funding for spin-outs (access to finance), as well as more political support for the spin-out sector.

## **Concluding Remarks**

The spinning-out of public services in the UK presents one of the largest changes to public service delivery in several decades. Spin-outs are viewed as offering the potential to increase

stakeholder participation; improve the breadth and quality of service delivery; reduce staff turnover levels; drive innovation in service design; and lead to more dynamic organisation decision-making structures (Addicott, 2011; Alcock *et al.*, 2012; Cabinet Office, 2011; Hall *et al.*, 2012b; Social Enterprise Coalition, 2011). However, to date there has been only limited research conducted that seeks to test these assumptions. The research outlined in this report has identified that the spin-out sector is experiencing sustainable growth in relation to turnover, profits and staffing levels. Indeed, this growth is driving both increased service provision and employment, which is being delivered at local and community levels. However, this is not to suggest that the spin-out sector does not face challenges. Indeed, the participants in this research identified a number of serious concerns relating to the future sustainability of the sector. These included commissioning frameworks and their suitability for fairly treating spin-outs; access to finance both in securing contracts and seeking investment; a lack of perceived political support for spin-outs; and the time taken to become sustainable and deliver growth. Finally, the research also identified that spin-outs appear to operate as partnerships and/or multi-stakeholder collaborations and that the importance of various stakeholders changes over time. This has important implications for those public services exploring the option of spinning-out as it provides a potential roadmap of the partnerships that they should be forming at different stages of the process, and the importance of different triggers in creating and driving the opportunity to spin-out. Whilst the sample-size is small and caution needs to be applied in generalising the results, the survey did capture information from around one-third of the sector and so provides useful insights into the ongoing development of spin-outs in the UK.

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