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Public Service Spin-Outs in the UK: Towards a Theoretical Understanding of the Spin-Out Process

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Abstract

Since the election of the Labour government in 1997 and its vision of the 'Third Way', the UK government has been keen to support social enterprise and to utilise the third sector in welfare delivery. Over the past few years the policy environment in the UK has sought to encourage public sector workers to 'spin-out' the services that they deliver into social enterprises. The research reported in this paper draws on semi-structured interviews with eleven representatives across four local authorities (LA) in the UK that are spinning out a public service into a social enterprise. The services being spun out operate across four different sectors, which allows the research to identify the common experiences and barriers in spinning out. The analysis is underpinned by a theoretical model of public/third sector collaboration by Takahashi and Smutny's (2002), later adapted by Cornforth et al (2013). We present an alternative version of this framework based on public sector spin outs. In doing so, the research identified that there are significant barriers facing public services that seek to spin-out as social enterprises and the challenges that this brings to LAs in relation to managing the process. Issues around the sustainability of the 'business case' of the spin-outs proved to be the main problem, along with the difficulties of maintaining service provision during the transition phase.

Overview

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 reforms to public services in England, which have resulted in less direct provision of public services by Local Authorities and an increased 'marketisation' of the public sector (Hall *et al.*, 2012b; Simmons, 2008). This marketisation of public services has been led by a desire to create more cost-efficient services that are also responsive to service user's needs. This reform is being driven by central government, which is using funding reforms and legislation to create greater public choice in the services that they use and the providers that they 'buy' these services from. In doing so, the government have encouraged the transfer of Local Authority staff into new provider and 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 Mutuals Taskforce, 2012:9).

There remains however, a limited amount of rigorous, academic research into this crucial area of government policy. This is particularly true in relation to research that helps to build a theoretical understanding of the spin-out process and the factors that drive this. This paper seeks to fill this gap in knowledge by utilising prior theoretical research into multi-stakeholder public/third sector partnerships and applying it to the spin-out sector. The paper begins with an overview of the spin-out sector in the UK in relation to policy drivers, spin-out motivations, service-user engagement and the benefits and the barriers and problems that arise from spinning-out. There then follows a discussion of the existing theoretical research into collaborative policy formulation and organisational collaboration that seeks to outline the applicability of such models to the spin-out sector. The data collected from the four case-

study local authorities is then discussed in relation to the prior literature and a theoretical model that seeks to explain the spin-out process is then presented based upon this data.

Theoretical Framework

<u>'Spin-Outs': A Policy Overview</u>

There has been a significant amount of policy support for the establishment of public sector mutuals and social enterprises in recent years. The English government is investing in public service mutuals through the £10 million 'Mutuals Support Programme', a comprehensive package of advice and support for potential mutuals, including a web-portal and helpline entitled the 'Mutuals Information Service' (MIS) established in December 2011 (Le Grand and Mutuals Taskforce, 2012). This was developed following the launch of the Mutuals Pathfinder programme in August 2010, which over the following two years led to the establishment of twenty-one pathfinder mutuals (Cabinet Office, 2011). These pathfinders covered a range of different service areas and organisational forms and are linked to the White Paper 'Open Public Services' (Cabinet Office, 2012), which positions mutuals at the heart of public service reform. Furthermore, the Localism Act 2011, effective from April 2012, has provided opportunities for community groups to take over and run their local services. Under this Act, the 'Community Right to Challenge' gives voluntary or community bodies, charities, parish councils or local authority staff the right to express an interest in running Local Authority services (Department for Communities and Local Government, 2012). Such initiatives have provided all public sector workers with the rights 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 at the same time to improve the quality of services (Birchall, 2012).

The health and social care sector has also seen a number of initiatives designed to encourage staff to spin-out their services into social enterprises. Policy initiatives in this sector include the 'Right to Request' and subsequent 'Right to Provide' programmes (Department of Health, 2008; 2011a). Right to Request 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 were made available to support these organisations through the Social Enterprise Investment Fund (SEIF), which up until March 2011 had invested over £82 million in approximately 450 new and existing social enterprises in health and social care (Social Investment Business, 2012). RtR has resulted in at least 38 new social enterprise spin-outs, with a total of at least 22,000 NHS staff working within them (Miller *et al.*, 2012a). The Right to Request scheme was closed in March 2011 but has been replaced by Right to Provide, which extends the right to 'spin-out' to all English health and social care workers (DH, 2011a).

A number of policies have also been developed to increase the demand for services provided by mutuals and social enterprises. This includes reforms to the commissioning of public services. The passing of the Social Value Act (SVA) into legislation, which came into effect on January 1st 2013,

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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, 2012:5). 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 Local Authorities to see concepts such as 'happiness', 'well-being' and 'empowerment' considered by public sector authorities when commissioning out services (NAVCA, 2013) and is aligned with current EU procurement initiatives (see below for further information). Furthermore, the establishment of the 'Any Qualified Provider' policy in 2012 sought 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, 2011b). Such policies do not however prioritise social enterprises or mutuals over other providers and spin outs must compete with other public, private and third sector organisations for contracts to deliver services.

Spin Out Triggers and Benefits

Literature suggests that staff motivations for spinning out can be triggered by either choice ('pull') or necessity ('push') (Hall et al., 2012a; Addicott, 2011). Choice or 'pull' driven spin-outs are those that are opportunity driven and are undertaken to create benefits for the service, its staff or users. They may arise through staff innovation and desire to improve service provision. Such spin-outs may be 'bottom-up' led, being initiated relatively low down in the hierarchy by public sector employees (Windrum, 2008). On the other hand, motivations to spin-out may be 'push' driven, which arise out of a reaction to government policy. Research by Hazenberg and Hall (2013) identified that the financial crisis and government spending cuts led to Local Authorities being expected to achieve the same outputs (or sometimes more), with less finance. Often, spinning out into social enterprises is the only option available for staff to retain control and ownership of their services in the face of service dissolution or privatisation (Hall et al., 2012a).

The main cited benefits for public sector staff in spinning out revolve around increased staff involvement in the decision making processes regarding the design and delivery of services. Evidence on social enterprise structures and emerging evidence on spin-outs suggests that by providing staff with ownership of their services they are more engaged and committed, which ultimately contributes to increased productivity and staff morale, as well as lower staff turnover and sickness levels (Gui, 1991; Cabinet Office, 2011; Social Enterprise Coalition, 2011). Furthermore, evidence from social enterprises in the health and social care sector (Addicott, 2011; Hall et al., 2012b; Alcock et al., 2012) indicates that social enterprises report increased efficiency and less bureaucracy through faster decision making processes (i.e. less time is spent on communications with health commissioners).

Research on the impact and outcomes of spin-outs is however very limited, especially in relation to service user outcomes. Therefore, little is known about how well spins-outs are performing in

comparison to their public sector counterparts. This evidence gap arises primarily out of the infancy of most spin-out ventures, which inevitably means that it is too early to establish clear outcomes and impact. The limited research around user outcomes is largely positive, suggesting that spin-outs are able to provide high quality, responsive services that are inclusive of all groups within society (Alcock et al., 2012; Miller et al., 2012a; LGA, 2012). Furthermore, public sector spin outs may also enable a greater engagement of service users in both designing and running services. User engagement may include having service users as Board members, or as paid staff or volunteers (Hazenberg and Hall, 2013; Hall *et al.*, 2012b). Although users have greater representation within spin-outs than most public services, there is still however limited evidence to show that user's views get fully integrated into organisational aims and objectives (Simmons, 2008).

The Risks of Spinning Out

Whilst the benefits of spinning out are tangible, a number of risks have also been identified. These include ease of access to finance and business failure. Additionally, spinning out brings with it greater accountability and takes away the 'safety net' provided by the public sector (Simmons, 2008; Hall et al., 2013). Hall *et al.* (2012b) 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 have to compete with established 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).

It is recognised that the spinning out of public services entails significant costs including planning, setting up (legal, IT costs etc.) and launching the social enterprise (SEC, 2011). Whilst financial and business support has been made available, such as through the Mutuals Support Programme or SEIF, such funds are only available for limited periods of time and securing funding is a competitive and often lengthy process (Alcock et al., 2012). Indeed, significant amounts of fiscal capital are required to underwrite the liabilities that public sector organisations transfer to spin-outs (Burns, 2012). The access to such capital is limited to all but the largest organisations and emerging financial markets such as the 'social investment market' do not yet provide the levels of capitalisation required by social enterprises and mutuals (Hazenberg *et al.*, 2013).

Low awareness and understanding of social enterprises and mutuals within local government, the NHS and in some cases Whitehall is also a potential barrier to spin outs (Burns, 2012). Whilst the education of commissioners is ongoing in relation to spin-outs (including links to policy initiatives such as the Social Value Act), this is still an area in which more could be done.

There are also emerging concerns around the ability of public sector staff to establish and run public sector mutuals. Spin-outs require strong leadership from public sector social entrepreneurs (SEL, 2010), as well as long-term leadership stability (Addicott, 2011). Spinning out requires public sector staff to 'work in a different way' (Simmons, 2008), take on new roles and often demonstrate business and entrepreneurial skills they did not possess. Recent evidence suggests that public sector workers may not have the business and management skills required to set up a social enterprise, survive within a competitive market and balance the social, environmental and economic areas of the organisation (Hazenberg and Hall, 2013; Burns, 2012; Hall *et al.*, 2012b). There are also ongoing concerns around the employment and pension rights of public sector staff in spin-outs and there has been some resistance from Trade Unions in this area (Birchall, 2012; TUC, 2011).

The research outlined above therefore suggests that a successful spin-out requires the engagement of different stakeholder groups. This includes those within the public service ranging from those 'at the top' (i.e. senior management and elected officials) to the lowest paid staff within the organisation (Hazenberg and Hall, 2013). Additionally, the engagement of service users remains an important (if under-used) option in the design of spin-out services and governance structures. The success of potential spin-outs therefore seemingly relies on the ability of all of the stakeholders to engage fully in the spin-out process. Therefore, in developing a theoretical understanding of the spin-out process we draw on literature on multi-stakeholder collaborations within/between the public sector and private-third sectors.

Multi-stakeholder Policy Collaborations

Cross-sector collaborations have become an increasingly common arrangement in dealing with social and environmental problems over the last few decades (Lober, 1997). Indeed, it can be argued that in the UK, cross-sector policy collaborations have dramatically increased since 1997, when the election of the then New Labour government led to a focus upon a 'third-way' in policy formulation and welfare delivery (Haugh and Kitson, 2007). This provides interesting research opportunities around exploring theoretical models of collaboration and specifically those that relate to policy initiatives in the public sector and the impact of these policies on public service design and delivery. Models of collaboration in policy formulation have been developed previously; notably Kingdon (1984) and Gray (1989) both of whom explored organisational models in relation to the policy arena. Gray (1989) argued that the collaboration arose where there was disagreement about how to solve a problem; where there was stakeholder involvement; a problem that was complex; and a perception that previous solutions had not worked.

Lober (1997) drew on Gray's (1989) model to state that in defining public/private policy initiated partnerships there are five main factors that lead to multi-stakeholder collaboration. First, there must be disagreement amongst stakeholders as to not only potential solutions to a problem but also the problem itself (Gray, 1989; Lober, 1997). In relation to spin-outs this could be a disagreement between service

users and local authority (LA) staff/policy-makers on a lack of beneficiary engagement in service design (i.e. the beneficiaries believe that the poor performance of the service is related to the lack of input that they have into the design and implementation of a service). Second, all of the stakeholders involved have a vested interest in solving the problem (Lober, 1997). Again and in relation to spin-outs this can be envisaged, with the staff and service-users having a clear interest in the service in question. Indeed, even elected members (and to a lesser degree senior managers) within LAs have a vested interest as they are accountable to the electorate in relation to service delivery. Third, there is a disparity of power between stakeholders, which inhibits potential solutions to the problem (Gray, 1989; Lober, 1997). This can be identified as being one of the drivers behind spin-outs, with a desire to engage traditionally marginalised groups (i.e. public service users) and involve them in the design and governance of public service spin-outs being a central aim of policy in this area (Hall *et al*, 2012b). Fourth, the problem in question is complex with no simple solution (Lober 1997, discusses scientific complexity in environmental problems, but this could just as easily be applied to social problems). Finally, there is some agreement amongst stakeholders that existing methods designed to solve or alleviate the problem have not worked (Gray, 1989; Lober, 1997). This is particularly pertinent to the spin-out of public services, as it is often this type of perception that leads to staff choosing to spin-out services, as they wish to take greater control of a service in order to improve its efficiency (Addicott, 2011; Hall *et al*., 2012b; Alcock *et al*., 2012).

Nevertheless, the model above only provides an internalised outline of the possible factors that can lead to public sector collaborations and ignores exogenic factors that can lead to such collaborations. Gray (1989) identified external factors as being important in driving collaborative responses to problems and identified this as a 'perceived crisis' that forces stakeholders together into action. Lober (1997) used the example of environmental crises as a catalyst for action (i.e. global warming and the 1997 international summit in Rio de Janeiro). However, examples within the public sector in the UK can easily be identified, for example the review of community-based policy following the 2011 UK riots. In relation to the spin-out sector and the UK public sector as a whole the ongoing global recession and the spending restrictions that this is placing on national budgets and hence public services can be viewed as being a key driver of the decision to spin-out and hence the formation of multi-stakeholder collaborations. This provides an example of an exogenic shock that helped act as a 'push' driver for spin-outs (Hall et al., 2012a; Addicott, 2011).

Lober (1997) developed the theoretical work of Kingdon (1984) and Gray (1989) to produce what he termed the 'collaboration forming model', in which the 'collaborative entrepreneur(s)' move towards a multi-stakeholder solution to a problem due to a combination of a common problem, policy initiatives, organisation drivers and external social/economic/political factors. This model is outlined below in Figure 1.

Figure 1 – Collaboration Forming Model:
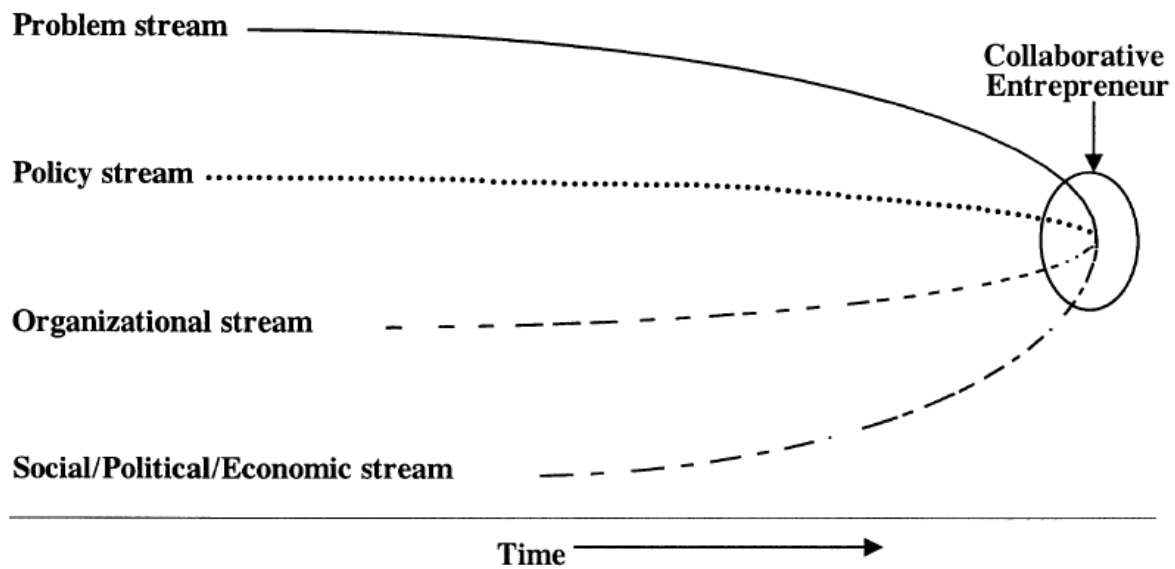

Taken from Lober (1997).

Lober's (1997) model was then further developed by Takahashi and Smutny (2002) to include the 'collaborative window'. Here the four streams outlined above in Lober's (1997) model provide a window for the entrepreneur(s) to act in, but this window is not infinite and the flux inherent in the four streams means that eventually this window closes. Takahashi and Smutny apply this nuanced model to argue that rather than collaborative partnerships provided a more efficient method of problem-solving, they are instead short-term strategies designed to cope with changing funding structures and policy-landscapes. Whilst there is merit in this argument, the rationale overlooks the permanency of some of the changes that such partnerships can deliver. For instance, in relation to spin-outs the 'spinning-out' of a public service into a private company would in practice be difficult to reverse by policy-makers, as in 'spinning-out' government (local or central) loses control over the service in question. Nevertheless, the collaborative window provides a valuable addition to the model as it identifies that the four streams (problem, policy, organisational and social/economic/political) are in a constant state of flux.

In a UK context the model(s) outlined above has already been applied in exploring collaborative partnerships between the public, private and third sectors. Cornforth *et al.* (2013) utilised the theoretical model framework outlined above to explore the governance of inter-organisational collaborations and in particular those between the public and third sectors (see Fig. 2). Cornforth *et al.* (2013) explored the validity of Takahashi and Smutny's (2002) model on a selection of case-study public-third sector collaborations in the UK. They identified that the four streams present in Takahashi and Smutny's (2002) model were not independent but in fact interrelated. In particular, changes in the social/political/economic stream influenced the other three streams and in particular the organisational stream. Exogenic factors within the social/political/economic streams also influenced the duration of the

collaborative window, with changes in policy and funding affecting different stakeholder's commitment for the collaboration. Finally, and perhaps the finding most relevant to spin-outs was the impact that internal tensions within the collaboration had upon success. Indeed, Cornforth *et al.* (2013) identified that the entrepreneur(s) within collaborations had to balance the tension between efficiency and inclusiveness, often altering the governance structure over time in order to account for deficiencies on either side.

<u>Figure 2 – The Governance of Public-Third Sector Partnerships:</u>
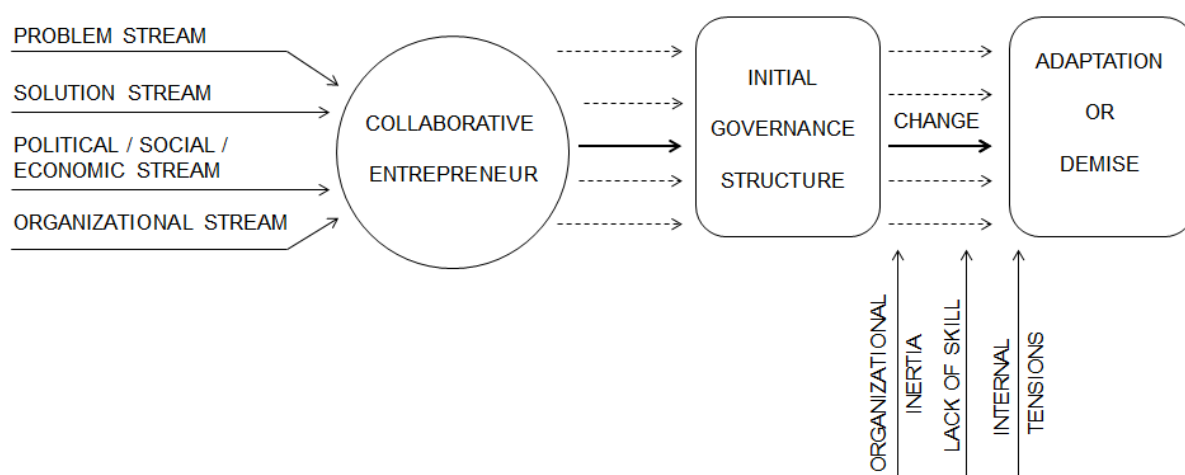
Taken from Cornforth *et al.*, (2013).

Interestingly, Cornforth et al. (2013) also suggested that the governance of such partnerships affected the longevity and effectiveness of public/third sector collaborations and identified research into collaborative governance by Provan and Kennis (2008) which stated that there are three types of collaborative governance; participant governed, lead-organisation governed; and network governed. Participant governed collaborations are inclusively managed with *all* the stakeholders participating in decision-making processes. Lead-organisational governance involves one of the stakeholder organisations involved taking a leading role in the decision-making process, particularly in relation to mission-critical decisions. Network governed collaborations the governance is undertaken by a separate administrative body that was formed by the stakeholder organisations at the beginning of the collaboration. However, whilst Provan and Kennis (2008) outlined these ideal types, there is in reality a blurring of the boundaries. As Cornforth *et al.* (2013) state, unequal power relations between stakeholders can still be exercised (even in a participant governed collaboration) through hierarchical, contractual and market forces. This is particularly pertinent for the spin-out sector, as research has shown that many spin-outs are still largely reliant on the funding and contracts that they receive from their parent authority (Hall *et al.*, 2013; Hazenberg and Hall, 2013a; Hazenberg, 2013). Such reliance on the parent authority (particularly financially) is not helped by the lack of available market support, such as from the social finance sector, for spin-out organisations (Hazenberg *et al.*, 2013).

Summary

The research outlined above has provided an overview of public service spin-outs in the UK in relation to policy, staff motivations, beneficiary involvement and the barriers and problems that can arise in successfully spinning-out. The paper has also argued that spin-outs therefore represent collaboration between policy-makers, funders (i.e. local authorities), public service staff and the public service-users. The prior research discussed in relation to collaborative policy-formulation and organisational collaborations and partnerships between public, private and third sector bodies has also sought to provide an overview of the factors that shape the longevity, governance and effectiveness of such partnerships. We explore the validity of Cornforth *et al.'s* (2013) model of public-third sector partnerships in relation to the spin-out sector in the UK.

Research Aims

The research sought to explore the following research questions:

Research Question 1:   What were the barriers/problems encountered by the local authorities in exploring the spin-out of their service?

Research Question 2:   Does Cornforth *et al.'s* (2013) model of public-third sector partnerships provide an adequate theoretical overview for the spin-out process?

Methodology

The research was conducted at four Local Authority (LA) case-studies based in England. The data collection took place between December 2012 and January 2013. Each of the four case-studies was seeking to spin-out one of their services. These services were: communications and public relations; library services; adult social care; and youth support and development. 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).These interviews sought to elicit participant's 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. 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.
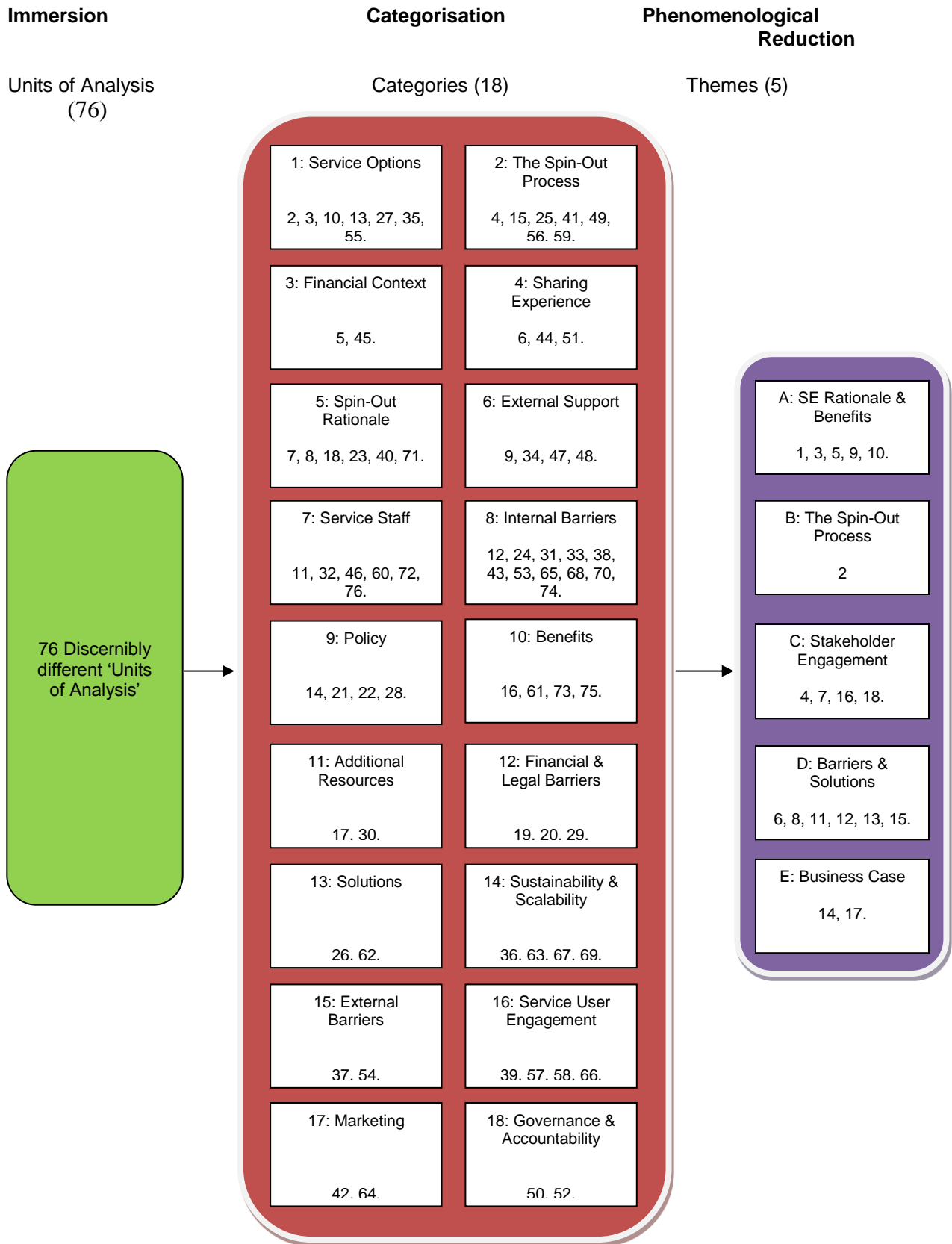
The method employed to analyse the participant's individual semi-structured interviews collected in the research was 'Constant Comparative Method' (Glaser & Strauss, 1967; Lincoln & Guba, 1985). Constant Comparative Method (CCM) is an iterative procedure designed for the qualitative analysis of

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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).

Results

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 (see Figure 3) is provided for further clarification. The numbers displayed in Figure 3 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.

Figure 3 – Phases of CCM Analysis for the LA Interview Data:

Immersion

Categorisation

Phenomenological Reduction

Units of Analysis (76)

Categories (18)

Themes (5)

76 Discernibly different 'Units of Analysis'

1: Service Options

2, 3, 10, 13, 27, 35, 55.

2: The Spin-Out Process

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

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C: Stakeholder Engagement

4, 7, 16, 18.

D: Barriers & Solutions

6, 8, 11, 12, 13, 15.

E: Business Case

14, 17.

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.

Theme A: Social Enterprise Rationale and Benefits

The main motivations for spinning out were based around the financial crisis and government spending cuts and this provided a motivation to explore new models of public service delivery. 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.

> *"About 3 years ago we saw the storm clouds gathering around public spending cuts and being none-statutory that made us particularly vulnerable…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)

> *"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.

> *"[The] ability to attract alternative funding…The ability to generate income much more freely, seeking contracts from different authorities…and I think just freedom to be more entrepreneurial."* (P5)

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. Mutual Pathfinders), all had a positive effect on the desire to spin-out and the process itself.

> *"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 the staff, ranging from a full staff vote to informal staff consultation. However, all four LAs engaged with the staff significantly in relation to exploring the spin-outs viability and its perceived impacts 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.

"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…at 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…"* (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 transitory 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.

"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)

Theme C: Stakeholder Engagement

Stakeholder engagement was seen by the participants at all four LAs as fundamentally important ensuring a successful spin out. The support internally of staff at all levels ranging from the senior management team to service delivery was viewed as paramount. It was seen that such democratic decision-making processes helped to ensure staff buy-in. 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)

"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'.

"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." (P11)

Finally, the consultation of service-users was also seen as a key part of the stakeholder engagement process in order to see what services these beneficiaries valued the most, as well 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.

"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 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 ways services work with service users...it makes them more responsive." (P11)

Theme D: Barriers and Solutions

Perhaps the biggest challenges that the participants articulated were centred upon developing and implementing spin-out plans and in engaging and gaining the support 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.

> *"There are always barriers because we can't read minds; we can't know what our senior politicians or senior officers realty wants. 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 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.

> *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)

Another key barrier 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.

> *"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 as strong position……It was about a huge amount of change all happening at once."
(P4)

<u>Theme E: Business Case</u>

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)

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…"* (P2)

Discussion

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, an unsupportive SMT at one LA ultimately led to the decision not to pursue the spin-out of services. This offers support to 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. These findings also offer support to Cornforth's (2013) model based upon the work of Lober (1997) and Takahashi and Smutny (2002) and suggest that the model provides a robust explanation of the process of spinning-out public services. In relation to spin-outs the data suggests that organisational factors significantly affect the spin-out process, but that these organisational factors are diverse and are dependent upon the differing power relations within the parent authority.

The engagement and support of staff and service-users was also seen as key (although less critical before spinning-out than organisational factors). 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 important 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 identified 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. Interestingly, whilst service users were engaged in the spin-out decision-making process this was not done extensively and their engagement was in a passive role (i.e. explaining how the changes would affect them), rather than being one in which they actively participated in the spin-out process. Indeed, whilst they were included in the governance structures at two of the spin-outs, it remains unclear as to how much input they had to this structure and suggests that service-users may only shape spin-out service delivery and governance post spin-out.

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 (understandably) 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, accountancy, 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. This provides additional evidence for the impact that the market can have on the spin-out process. For example, the participants perceived that as the number of spin-outs (along with private firms with expertise in this area i.e. law firms) increased, then the barriers to spinning-out would be reduced.

The LA participants also discussed the impact that general LA restructuring 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 offers support to Addicott's (2012) claim that the motivation behind spin-outs may merely be a reaction to restructuring processes, which also aligns with Takahashi and Smutny's (2002) theory of the 'collaborative window'. It also suggests that the social/political/economic stream is a crucial element within Cornforth *et al.'s* (2013) model even when applied to the spinning-out of social enterprises. 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 suggests that the social/political/economic stream of the model operates beyond the initial phases of spinning-out right through until organisational independence from the parent authority has been achieved (and possibly beyond this).

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 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 that within Cornforth *et al.'s* (2013) model, whilst the policy/solution stream is important in shaping the spin-out process, it can be superseded at a local level by organisational factors and tensions.

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 successfully spin-out. 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 delivery led 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). Additionally, it suggests that the service staff's collective skill-set is crucial in gaining support within the organisational sphere to spin-out.
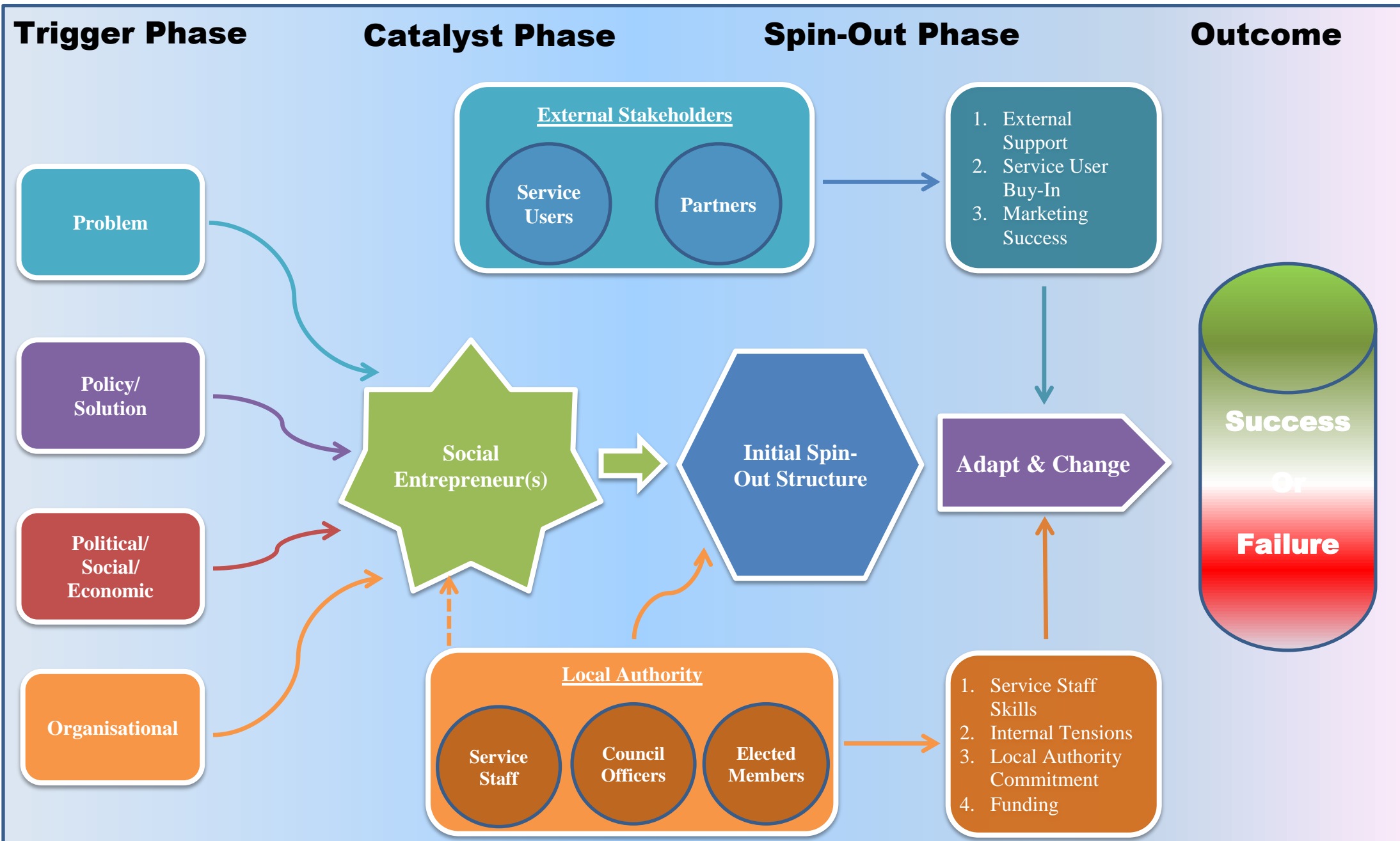
The participants discussed the perceived and actual benefits of spinning-out from the LA. The importance of the independence that this would bring to services and their staff in delivering services that the users wanted and needed was seen as key. This independence would give the spun-out service opportunities 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 edicts. This offers support to prior research in this area (LeGrand and Mutuals Taskforce, 2012; Hall *et al.*, 2012a), as the participants perceived that this 'empowerment' would allow the spun-out service to be more responsive to user and community needs and innovative in the services that they delivered. This finding would suggest that the empowerment and independence of the spin-out moving forward could reduce the impact of the organisational and social/political/economic streams, as the spin-out gains autonomy and becomes increasingly independent both financially and politically. However, this is dependent upon organisational growth, beneficiary engagement and a diversifying of contracts and income streams in order to avoid contractual/financial dependence on the parent authority (Cornforth *et al.*, 2013).

Organisational Change in the Spin-Out Process

The discussion outlined above provides support for the applicability of Cornforth *et al.'s* (2013) model and Takahashi and Smutny's (2002) theory of the collaborative window to the spin-out process. The interview data suggests that the organisational stream of the collaboration (i.e. the parent authority) remains the key arbiter of whether to spin-out, albeit a factor that is mediated by the

social/political/economic stream and policy/solution stream. However, the data also suggests that the importance of different streams is not merely mediated by the other streams, but that this relative importance is in flux and changes over time. As the social problem first occurs, the four streams of problem, policy/solution, organisation and social/political/economic interact in what could be termed the 'trigger phase'. During this time the 'collaborative window' is open to the entrepreneur(s) but the decision to spin-out remains one of many competing options being considered by the local authority. However, if the entrepreneur(s) decide to pursue the idea of spinning-out their service then they enter the catalyst phase. In this second phase they need to engage thoroughly with all of the relevant stakeholders, but most importantly with the decision-makers in their parent authority. If the decision to spin-out the public service is granted then they enter the spin-out phase in which the initial structure of the spin-out is adopted and the transfer of assets, staff and the awarding of contracts are agreed. Here still, the organisational stream remains the most important factor although this is somewhat lessened by the policy/solution and social/political/economic streams doe to the support that can be offered by external partners (i.e. law firms) and central government (i.e. the Mutual Pathfinders programme). Once the service has fully spun-out and achieved independence from the parent authority then it enters the adapt/change cycle in which a diversifying of income streams, contracts and genuine service-user engagement are essential if the spin-out is to become sustainable and grow. Only at this stage does it become possible for the spin-out to become independent of the organisational stream. Figure 4 provides a diagrammatical representation of this process.

Figure 4: Organisational Change in the 'Spin-Out' of Public Services:

Trigger Phase

Catalyst Phase

Spin-Out Phase

Outcome

- Problem
- Policy/ Solution
- Political/ Social/ Economic
- Organisational

External Stakeholders

- Service Users
- Partners

1. External Support
2. Service User Buy-In
3. Marketing Success

Social Entrepreneur(s)

Initial Spin-Out Structure

Adapt & Change

Success Or Failure

Local Authority

- Service Staff
- Council Officers
- Elected Members

1. Service Staff Skills
2. Internal Tensions
3. Local Authority Commitment
4. Funding

Summary

The research reported in this paper sought to explore the common barriers and problems experienced by local authorities in exploring the spin-out process. This research was underpinned by prior theoretical research into the nature of public and third sector collaborations and in particular Takahashi and Smutny's (2002) theory of the 'collaborative window' and Cornforth *et al.'s* (2013) model of change in such partnerships. The findings suggest that Cornforth *et al.'s* (2013) model is applicable to the process of spinning-out a public service. The four streams inherent in this model are all involved in shaping the spin-out process and also mediate each other. The research suggests that the organisational stream is the most important in the successful spinning-out of a public service and that the relative importance of each stream is in flux over time. Crucially, the importance of the organisational stream appears to diminish over time as the spin-out moves towards operational and financial independence from its parent authority. Therefore, in adapting Cornforth *et al.'s* (2013) model to the spin-out sector it becomes necessary to add time-dependent phases that act to mediate the effect of the four streams. Further research is necessary with a larger sample of local authorities exploring spin-outs in order to explore the validity of this model. Additionally, longitudinal research that followed a spin-out beyond the spinning-out phase would also offer additional evidence for/against the model proposed in this paper.

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