MUTUAL BENEFIT?

Should mutuals, co-operatives and social enterprises deliver public services?

UNISON
the public service union

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Introduction

Political interest in mutuals and co-operatives as an option for public service provision has grown markedly in recent years. In the Comprehensive Spending Review (published in October 2010), the coalition government promised:

> …a new right for public sector workers to form employee-owned cooperatives and mutuals to take over the services they deliver…
>
> (HM Government, 2010a: 35)

In November 2010, Francis Maude, minister for the Cabinet Office, announced a range of measures to support public service spin-outs:

- over £10 million to help the best fledgling mutuals reach investment readiness
- a new information line and web service for interested staff, provided by Local Partnerships, the Employee Ownership Association and Co-ops UK
- a 'challenge group' involving employee-ownership experts including John Lewis Partnerships, to investigate ways to improve regulation.

(Cabinet Office, 2010a)

Maude suggested prisons, Sure Start children's centres and hospitals and the civil service as examples of services that could become mutuals under the scheme. In several respects, this is an extension of the previous government's policy. The last Labour government saw mutuals as an important part of its public sector reform programme, outsourcing public service provision to both the private sector and the voluntary sector. It began to encourage the idea of 'mutualism' involving staff moving out of the public service and/or service users setting up mutuals or co-ops (HM Government, 2010b). A House of Commons library research paper reported: "Mutuality, in all its guises, has never had such a high perceived standing as now." (Edmonds, 2010: 2). If anything, this increased during the 2010 election campaign. The mutuals' lobby group, Mutuo, noted:

> Mutuality has been re-emerging to meet the needs of a very different age, and it is no accident that it featured in the manifestos of all three leading parties.
>
> (Mills, 2010: 4)

In some respects, this political consensus among the main parties represents a convergence of New Labour with Orange Book Liberal Democrats (Laws and Marshall, 2004) and 'red Toryism' (Derbyshire, 2009). In its 2010 election manifesto, Labour (2010) made a series of promises to support the expansion of mutuals and co-operatives, particularly in public service provision. During the election campaign the Conservative party (2010: 6) issued an invitation to public sector workers "to form a co-operative enterprise with colleagues and bid to take over the services you deliver". The Liberal Democrats (2010: 27-28) promised to pass a new Mutuals, Co-operatives and Social Enterprises Bill and proclaimed their belief that

> …mutuals, co-operatives and social enterprises have an important role to play in the creation of a more balanced and mixed economy.

Although there was cross-party consensus on the desirability of greater provision of public services by the third sector in general and mutuals in particular, some commentators identified important differences in the parties' vision for the sector:

> with the Labour party regarding it in terms of partnership, campaigning, service delivery and policy influence, compared to a Conservative emphasis on localism, social action and smaller government.
>
> (Parry et al, 2010: 30)

The subsequent coalition government's programme pledged:

> We will support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services.
>
> We will give public sector workers a new right to form employee-owned co-operatives and bid to take over the services they deliver. This will empower millions of public sector workers to become their own boss and help them to deliver better services.
>
> (HM Government, 2010a: 29)

As an indication of the general increased interest in mutuals and co-operatives, a commission on ownership was set up in December 2009 to examine:

> …the influence that ownership has on the governance of our country, on British businesses and in the public sector.
>
> (Commission on Ownership, 2010)

The commission is chaired by Will Hutton, hosted at the Oxford Centre for Mutual and Employee-owned Business, at Kellogg College, Oxford University, and its secretariat is provided by Mutuo. The commission will arrange research, hold seminars and other events and report in the summer of 2011. The interest in co-operatives and mutuals is not limited to the UK as is shown by the fact that the United Nations has designated 2012 as the International Year of Co-operatives (United Nations, 2009).

This paper will contribute to the debate by setting out what is meant by mutuals and co-operatives, especially in the context of public services; examine government policy; review their origins and development today; and identify the key issues in the discussion about alternative forms of the provision of public services.

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What are mutuals?

The difficulties of defining those entities that are neither part of the public sector nor part of the profit distributing sector can be seen by the wide range of different (but often overlapping) names used – social enterprise, voluntary, third, not-for-profit, non-profit sector, charities, mutuals, co-operatives. The terms mutuals and co-operatives, in particular, are frequently used interchangeably.

Of course, neither mutuals nor co-ops are new forms. Their 19th century origins lie in the period before the large-scale development of the welfare state and were a response to the failures of the market to provide "for particular social and economic needs, such as social insurance protection and mortgage borrowing" (Alcock, 2010: 12). The relationship between state, market and civil society has been a fluid one and some activities have moved between the sectors over the years, but the recent growth in social enterprises is seen as the latest attempt to respond to the failings and limitations of the market to "develop ethically and environmentally sensitive products and practices" (ibid).

The Mutuals Information Service (MIS)[1] states that a mutual "in a public sector context" is a business that is owned by its members, and that it can operate in several forms:

- employee owned
- co-operative
- wider social enterprise

They claim that mutuals can include or participate in "a variety of commercial arrangements, including joint ventures with government or other parties" (MIS, 2010). The different forms are defined as follows:

> Employee ownership refers to companies where employees own "a significant or controlling stake in the business". This could involve direct shareholdings where employees own individual shares, or indirectly where a trust holds the shares on behalf of employees.
>
> Co-operatives are "fully or majority owned by their members". These may be employees, consumers, others in the community or a mix. Co-operatives work on one member, one vote – rather than one share, one vote – and sign up to an agreed set of values and principles.
>
> Social enterprises are businesses or services with primarily social objectives whose surpluses are principally reinvested for that purpose in the community, rather than being driven by the need to maximise profit for shareholders and owners.

[1]On 17 November 2010, minister for the Cabinet Office, Francis Maude, announced that Local Partnerships, Co-operatives UK and the Employee Ownership Association had come together in partnership to provide a signposting service for staff in the public sector interested in setting up a social or mutual enterprise. This is the Mutuals Information Service. It is located online at http://www.mutuals.org.uk/

MIS also include joint ventures in their list of arrangements that mutuals could be involved in. They define these as:

> a range of different commercial arrangements between two or more separate businesses, organisations or public bodies. A joint venture can be a contractual arrangement, or separate legal entity, under which a new business is created in which the parties work together, sharing the risks and benefits arising.
>
> (MIS, 2010)

The definition of joint venture is clear enough but there is no explanation as to how a mutual could, for example, create a new separate legal entity in a joint venture with a private sector company and remain a mutual.

However, this is not the only problem with the definitions provided by MIS on behalf of the government. This is because as Lewis et al (2006) point out, there is no single agreed definition of a mutual. They argue that existing mutuals share several common features:

- mutuals are established to serve a specific community or interest group
- mutuals are all 'owned' by their members. This ownership is vested in the membership community of each mutual, and is expressed commonly. In other words, no individual can take away their share of the assets. Each generation is a custodian of the organisation for the next. There are no equity shareholders, and mutuals do not belong to the government
- mutuals all operate democratic voting systems, with all members having equal power – one member, one vote
- mutuals have governance structures that formally incorporate stakeholder interests, and seek to ensure that these different stakeholders have an appropriate role in running the organisation proportional to their relative stake.

(Lewis et al, 2006: 5)

Accepting these characteristics, membership and the role of members becomes a key part of the definition. The members may be the beneficiaries of the organisation or the workers within it, or both. Some organisations also extend membership to more general supporters of the organisation. Mutuals do not necessarily have to be social enterprises – they could exist purely for the benefit of the membership.

Mutuo (2010a) defines mutuals as

> …organisations that are owned by, and run for the benefit of, their current and future members.

As noted earlier, the terms co-operatives and mutuals are frequently used interchangeably. The International Co-operative Alliance (ICA, 2010) defines a co-operative as:

> an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

According to Co-operatives UK (2010: 4), the national trade body for co-ops, one of the key elements is that they are owned by the members, not external shareholders, and:

- they exist to serve their members, whether they are the customers, the employees or the local community
- members have an equal say in what the co-operative does. So, as well as getting the products and services they need, members help shape the decisions their co-operative makes
- co-operatives share their profits among members, rather than rewarding external investors.

Illustrating the difficulties in drawing distinctions between mutuals and co-operatives, Mutuo (2010a) explains that:

> Mutuals take many forms and operate in a wide range of business and social environments. Most people recognise mutuals through one or more of the long established building societies, co-operatives, friendly societies and mutual insurers.

Under the last government, the Treasury (2008: 7) sought to bring some clarity to the subject and defined mutuals as:

> broadly speaking, societies registered under the Building Societies, Friendly Societies and Industrial & Provident Societies Acts. They are:
>
> - owned/controlled by their members
> - run democratically on the basis of one member one vote
> - set up to meet the mutual needs of their members
> - not set up to make profits for external shareholders or primarily provide a return on capital
> - share any surplus or profits (the dividend) with their members.

The difficulties of definition are further illustrated by the fact that organisations that might be described as mutuals do not always distribute any surplus among their members. They might use it for other purposes such as staffing costs.

Co-ops can also take a number of legal forms but are expected to adopt the seven principles agreed by the International Co-operative Alliance (Co-ops UK, 2008: 2):

1. Voluntary and open membership. Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. Democratic member control. Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3. Member economic participation. Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and independence. Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, training and information. Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6. Co-operation among co-operatives. Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for community. Co-operatives work for the sustainable development of their communities through policies approved by their members.

As will become clear in the course of this paper, some of the varieties of organisational forms that are being described by the government as mutual or co-operative social enterprises are far from it. This has already caused controversy. Peter Holbrook, CEO of the Social Enterprise Coalition, clashed with health secretary Andrew Lansley, saying “the fundamentals of social enterprise will get lost or distorted” if companies are “allowed to call themselves social enterprises if they are not” (Hampson, 2010a).

Legal forms and structures

Because there is no specific legal definition of a mutual, they can take a number of different legal forms. To a large degree the form that is adopted is dictated by the organisation's activities and capital needs. Some qualify for charitable status while others do not. A distinction is drawn between activities carried out for the public benefit – which may be eligible for charitable status – and those activities carried out for private benefit, which are ineligible. The main relevant forms are as follows – other possibilities include operating as an unincorporated association or a trust (TPP Law, 2010):

- limited company (other than community interest company)
- community interest company
- industrial and provident society (co-operative society)
- industrial and provident society (community benefit society)
- charitable incorporated organisation.

There are two forms of limited company available: a company limited by guarantee or a company limited by shares. In the former the members of the company give a guarantee for a nominal sum such as £1, which will be the maximum amount for which they will be liable if the company is wound up. In the latter, members own shares in the company that they may have bought or been given (through an employee share scheme, for example). The maximum amount for which they would be liable on winding up is the amount payable for the shares.

The community interest company was introduced in 2005 as a legal form specifically for social enterprises – for businesses that want to use their profits and assets for the public good. There are two forms of community interest company: those limited by either shares or guarantee. Community interest companies are ineligible for charitable status. The most important principle of the community interest company is the 'asset lock' – assets of all forms (including any surpluses) are 'locked' within the company or are transferred to another 'asset-locked' body on winding up. A community interest test must be taken by any organisation wishing to register as a community interest company. It must show that its activities would be beneficial to the community (the community cannot be an unduly restricted group or have political motives).

The Co-operative and Community Benefit Societies and Credit Unions Act 2010 is now law but not yet in force. It requires the Treasury to produce a commencement timetable. The act will replace the old industrial and provident society legislation so that all new industrial and provident societies – apart from credit unions – will either become a co-operative society (formed for the benefit of the members, rather than the wider society; has the core values of a cooperative, that is, one member, one vote; and has scope for distributing dividends among members) or a community benefit society (these pursue a wider public good, rather than just members' interests; cannot distribute profits to members; and membership is generally open to anyone able to use the services and willing to accept responsibilities of membership, subject to limited qualifying criteria).

Community benefit societies (unlike co-operatives) can apply for a statutory asset lock, which in the event of the society being wound up, prevents any assets or cash from being distributed other than to creditors, or to another asset-locked body, such as a charity or a community interest company.

The Cabinet Office (2010b) says that the ‘pathfinder’ mutuals are exploring a range of legal forms and methods of employee leadership. Ministers emphasise that the focus is on the principles of co-operation, rather than the particular legal form used to achieve this. However they describe them as ‘employee-led’, which suggests that the members will be employees rather than service users and that they are to be established for the benefit of the employees rather than the wider public – along the lines of the John Lewis Partnership.

The charitable incorporated organisation is a new legal structure, which is not yet available but is expected to be so in the spring of 2011 (Charity Commission, 2010). For charities it provides the advantage of a corporate body with its own legal personality under one regulator (the Charity Commission). Up until now charities wishing to adopt a corporate structure opted for a company limited by guarantee under company law. This meant that they became subject to dual regulation by both the Charity Commission and Companies House.

Coalition government policy

The government is engaged in a major restructuring of the state – at both local and national level. The economic problems relating to the debt and the deficit are the reasons set out for the change but the real objective appears to be a massive shrinking of the public sector. Rather than responding to a financial crisis caused by irresponsible risk-taking by an under-regulated banking sector, the government has recast the problem as one caused by a profligate state sector that is too big and spends too much of the nation's wealth. As David Cameron put it to the 2009 Conservative party conference:

> Why is our economy broken? Not just because Labour wrongly thought they'd abolished boom and bust. But because government got too big, spent too much and doubled the national debt.
>
> (Cameron, 2009)

The public sector reform programme, of which the emphasis on the role of mutuals and co-operatives forms a part, needs to be seen in that light. Building on the changes brought in by the previous Labour government, the coalition announced early on, its commitment to:

> support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services.
>
> (HM Government, 2010a: 29)

In November 2010, the government launched two consultations: a green paper, 'Modernising Commissioning' (Cabinet Office, 2010c), and another more generally on public service reform (HM Treasury/Cabinet Office, 2010). Both will feed into the production of a white paper on public service reform, promised for May 2011. The green paper takes forward an earlier commitment:

> to ensure the most effective and efficient charities, social enterprises, mutuals and cooperatives have a much greater involvement in the running of public services.
>
> (HM Government, 2010c: 8)

The government puts forward two reasons to justify its commitment to increased involvement of civil society organisations (and the private sector) in public service provision:

- achieving a power shift with a transfer of power from central government to local communities
- improving the quality and efficiency of public services, thereby enabling public spending cuts to be implemented in 'fully informed ways' (Cabinet Office, 2010c: 6).

The wider public sector reform programme (which will be published in the forthcoming white paper) will focus on:

- promoting 'independent' provision in key public services (in other words, provision from both private sector companies and civil society bodies)
- developing new rights for communities and public employees to buy and run services
- attracting external investment and expertise into the public sector to deliver better and more efficient services
- extending innovative payment and funding mechanisms, such as personal budgets and payment-by-results commissioning in more areas

- increasing democratic accountability at a local level
- maintaining continuity of service and managing risks in light of these reforms.

(HM Treasury/Cabinet Office, 2010: 2)

The government will also set proportions of specific services that should be delivered by “independent providers, such as the voluntary and community sectors and social and private enterprises” (HM Treasury, 2010: 34). This objective sits uneasily with the pledge made by the deputy prime minister, Nick Clegg (2011) that:

> I categorically do not believe that private providers are inherently better than public-sector providers, and I would not support an approach to reform that implied that they were.

And:

> I will take a hard line, too, against any attempts to replicate the mistake of skewing the market against public-sector providers.

If reserving proportions of specific services for ‘independent’ providers is not “skewing the market against public-sector providers”, it is difficult to know what is.

The government’s extension of the right of public sector workers “to form employee-owned cooperatives and mutuals to take over the services they deliver” (HM Treasury, 2010: 35) is an important part of the coalition’s public service reform programme. Public sector workers who express an interest will be encouraged and mentored. The government has persuaded Local Partnerships, the Employee Ownership Association and Co-ops UK to come together to run a free phone and web-based information service (the Mutual Information Service). It will provide guidance and signposting to relevant services, projects and organisations.

Francis Maude has also established a mutuals taskforce to advise ministers on how to ensure the success of this policy. It includes Patrick Lewis, from the John Lewis Partnership; Jo Prithcard of Central Surrey Health; Ed Mayo, Co-operatives UK; Patrick Burns, Employee Ownership Association; Peter Marsh, University of Sheffield; and Peter Holbrook, Social Enterprise Coalition. As if to emphasise the continuity with the previous Labour government, the coalition has appointed Blair favourite, Julian Le Grand, professor of social policy at the LSE, as the chair of the taskforce to promote the mutualisation of public services (Cabinet Office, 2011).

There is a support fund of £10 million to assist the would-be mutuals (Maude, 2010: 9) and in early February 2011, Maude announced the second wave of eight ‘pathfinder mutuals’ from the public sector (Cabinet Office, 2011), which follow on from the 12 pathfinders announced in August 2010. The pathfinder mutuals follow the initiatives in the NHS in England under the ‘right to request’ introduced by the Labour government in 2008, enabling staff to set up social enterprises to provide community services (Ham and Ellins, 2010).

The new mutuals will negotiate contracts with the relevant civil service department or public sector commissioning body “on the basis that they will provide improved services, while minimising spend on administration and overheads” (Cabinet Office, 2010c: 11). The government says that it is also examining whether it can offer a contract to the staff forming the mutual to continue providing the services (presumably without having to tender) (Cabinet Office, 2010c: 11).

Mutuals today

The most widely recognised forms of mutualism in Britain today are probably building societies, co-operatives, friendly societies and mutual insurers. However, they are not the only areas of mutual activity. Mutuo (2010b: 1) claims that in 2010 over one million people worked for mutuals; that they had assets of over £500 billion, 74 million members, and that gross annual turnover of UK mutuals exceeded £100 billion for the first time.

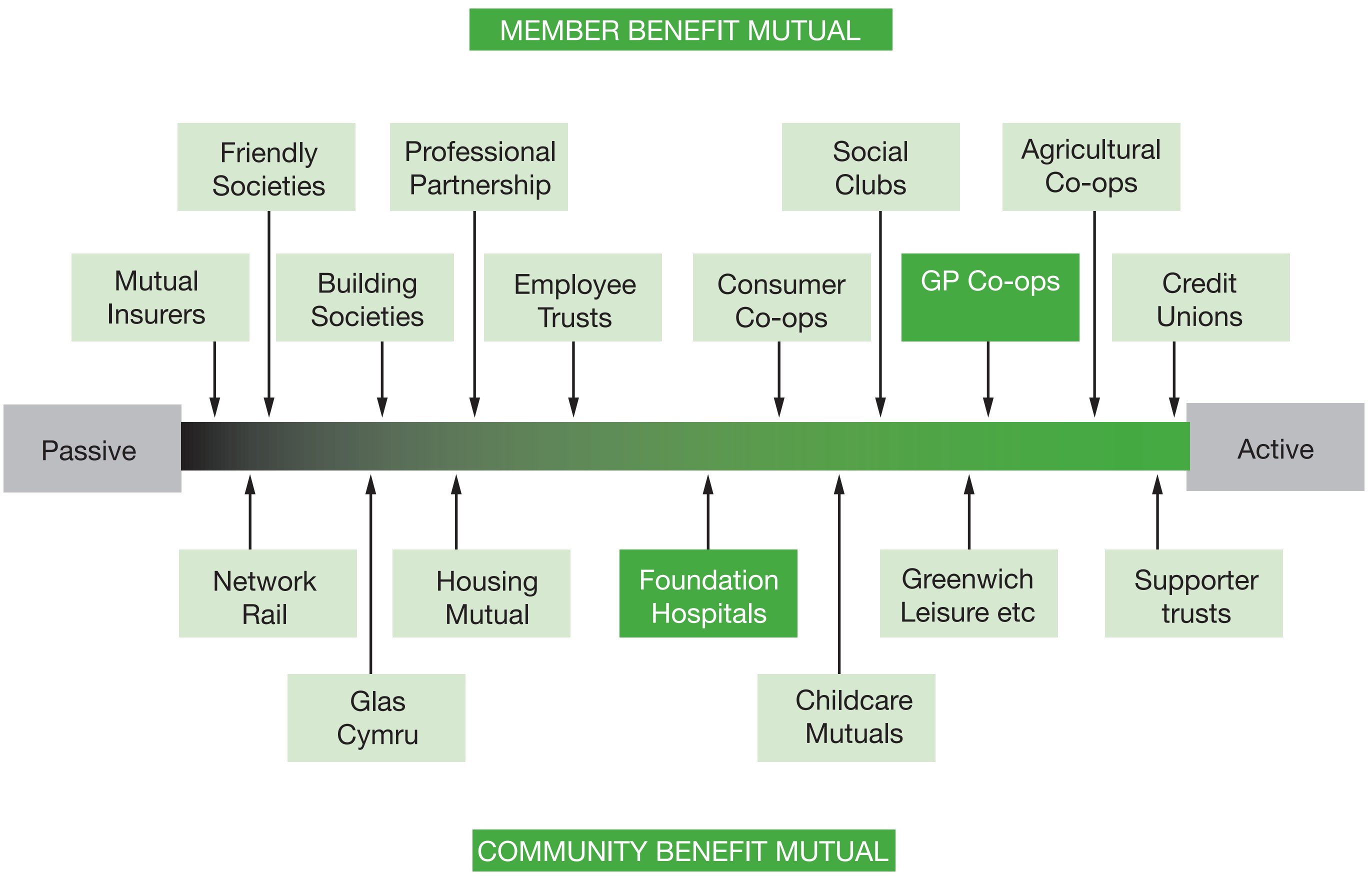
Table 1: Data on mutuals in the UK

Sector	Number	Members	Employees	Assets (£m)	Revenue (£m)
Building societies	49	27,000,000	50,000	365,000	4,500
Mutual insurers and friendly societies	200	20,000,000	14,000	80,000	6,000
Other financial mutuals	2	*	1,181	69,747	1,945
The co-operative sector	3,507	11,413,739	163,084	7,883	24,677
Co-operative Trust Schools	105	*	*	*	*
Credit unions	454	761,708	980	703	65
Employee owned businesses	250	*	130,000	*	25,000
Football supporter trusts	172	255,485	170	20	11
GP co-ops and mutuals	34	*	7,500	*	120
Housing associations	2,018	6,430,000	163,849	69	13,255
Leisure trusts	101	*	21,400	*	790
Clubs and societies	11,600	7,000,000	20,000	220	463
NHS Foundation Trusts	129	1,761,922	453,788	15,786	24,556
Total	**18,621**	**74,622,854**	**1,025,952**	**539,429**	**101,383**

Source: Mutuo (2010b)

It is possible to get a sense of the range of organisations and sectors of operation of UK mutuals from Figure 1 below. It portrays a selection of mutuals - both those that are set up for the benefit of members and those that exist for the benefit of a wider defined community. It also places each of the mutuals along a spectrum indicating the greater or lesser level of involvement of an individual member in the governance structure. There is a wide variation in the level of activity, the governance structures and the relationship between the individual member and decision-making. These can exist in different legal forms, from companies to societies.

Figure 1: The spectrum of UK mutuality



Source: Hunt (2006) In the Public Interest. Mutuo.

Issues for the trade union movement

Introduction

The coalition claims that mutuals are the answer for the public sector, but the answer to what exactly? Ministers seem to view mutualism as some kind of magic formula that will improve services, cut costs, bring services closer to the user and extend the principles of civic involvement whilst simultaneously empowering former public sector workers and releasing their frustrated entrepreneurial spirit. None of these is seen as either problematic or potentially in conflict with one another.

Cabinet Office minister Francis Maude says that mutuals are part of the government's:

> plans to set public sector workers free, to let them take control of their organisations, turn them into mutuals and have more control and autonomy over how things are run.
>
> (Maude, 2010: 2)

By doing so, it is argued that the workers providing the service will be happier and more effective in their work and consequently service quality will improve and costs will fall. Maude claims that there is evidence to show that employee-led mutuals "reduce absenteeism, improve performance management, encourage innovation, and increase productivity" (Maude, 2010: 3). In support of this, he claims (without reference to any data) that absence levels at John Lewis are half the average in the retail sector and that where staff feel they have influence on their organisation and a stake in its success, then staff turnover is lower and productivity "can be up to 19% higher" (Maude, 2010: 4). Finally he argues that employee ownership allows workers to redesign services so that they are both more efficient and meet the needs of users and communities.

Spinning out public sector units into mutuals may not draw the level of public opposition that privatisation would (especially in health and education) but it still accepts the logic of the market in public service provision and, in the longer term, could also result in a major extension of more traditional privatisation. The government accepts that the market is the best means to allocate resources and that this applies to the public services as much as anywhere else in society. Co-ops and mutuals become additional potential providers – with private companies – that will compete for tenders to deliver public services. This section of the paper examines some of the issues raised by the government's policy and questions some of the assumptions behind it.

Better performance and greater efficiency – more for less

Great claims are made for mutuals (and the third sector in general) as being able to deliver public services to a higher standard and at a lower cost than public sector providers. However, hard evidence to substantiate these claims is scarce (Macmillan, 2010). In its inquiry into public services and the third sector, the Public Administration Select Committee (2008: 3) concluded:

> The central claim made by the government, and by advocates of a greater role for the sector in service delivery, is that third sector organisations can deliver services in distinctive ways, which will improve outcomes for service users. We were unable to corroborate that claim. Too much of the discussion is still hypothetical or anecdotal. Although we received a great volume of response to our call for evidence, much of it

> admitted that the evidence was simply not available by which to judge the merits of government policy.

A recent Third Sector Research Centre report on social enterprise spin-outs from the English NHS (Miller and Millar, 2011: 2) points to the concerns about the rationale behind the move in the "light of the absence of a convincing body of evidence that such organisations can consistently deliver the expected innovation and efficiencies in health provision". The Department of Health (2010: 3) itself admitted:

> The benefits of the social enterprise model are not always clear, not only to potential commissioners, but also to staff and stakeholders.

The report on social enterprise pathfinders upon which this comment draws was commissioned by the Department of Health from Tribal (2009), a multinational company heavily involved in providing contracted-out services to the English NHS. The report identifies a series of potential benefits which it says "appear to be associated" with the social enterprise model in health and social care (Tribal, 2009: 75) such as enhanced quality of provision; better fit with needs of particular client/patient groups; expert knowledge in specific areas; innovation and entrepreneurship; value for money; wider social dividend.

However, this looks more like a wish list than an analysis of practice, as the report concedes that the "realisation of these aims as achieved benefits is still at an early stage" and "most have not yet been fully developed as potential benefits that could be quantified and included in a business case justification for investment" (Tribal, 2009: 75-76). The report admits that "identified benefits were in many cases anticipated rather than being underpinned by robust evidence" but puts this down to the pathfinders being at an early stage of development (Tribal, 2009: 43). Furthermore, "the benefits of social enterprise status are as yet untested", which presents the new social enterprises with a problem in gaining contracts because they are unable to point to a track record of successful delivery (Tribal, 2009: 66). On the other hand, the authors of the report admit that the ability to show clearly the benefits of social enterprise is essential "if they are to enjoy the same level of support as is enjoyed by organisations considered to be in the 'NHS family' " (Tribal, 2009: 72).

In certain service areas, the government has commissioned a considerable amount of research into the performance of different types of providers. A review of the relevant data in the provision of employment-related services showed that:

> It is simply not true that either the private or the third sector has a consistently better record in the provision of employment services than in-house staff. Wherever Jobcentre Plus has been allowed the same flexibilities and funding as private sector companies or charitable organisations it has been able to match, if not surpass, the performance of contractors.
>
> (Davies, S, 2008: 158)

A recent study on outcomes for public service users which focused on the provision of adult social care and early years education (by private, voluntary and public sector providers) found that there "was no significant difference in outcomes between care homes in different sectors" and "no systematic difference in outcomes between early years providers in different sectors" (ONS, 2010: 69).

One of the arguments deployed in favour of using mutuals (and other forms of alternative provision) is that public sector organisations are too large and unwieldy, bureaucratic and wasteful. By breaking up the units, decentralising control and introducing competition, it is argued that performance will improve. However as Allen (2006: 250) notes, “the UK and international evidence is equivocal about both these statements”.

Some supporters of mutuals recognise that a combination of factors is necessary for positive outcomes. Ellis and Ham (2009: 51) note that employee ownership on its own does not automatically produce the goods and argue that there need to be both human resource management practices that encourage employee participation in the company and a culture of ownership.

End the bureaucracy – focus on the user?

The government argues that the bloated state is holding back dedicated front-line public servants from doing their job and that mutuals or other forms of social enterprise would allow workers to focus on the user and cut through “the stifling red tape and bureaucracy” (Maude, 2010: 4). Many would agree that there are too many targets and performance indicators, too much centralisation and too much time and money spent on breaking down services into measurable tasks, costing, accounting for and monitoring them. Almost all of this ‘bureaucracy’ is a result of introducing markets into public services or attempting to replicate them with various measures and targets that stand in for the market. The administration and monitoring of transactions and transaction costs – which are an integral part of marketisation of public services and which the coalition supports – account for much of the burden (Pollock, 2004). In the English NHS alone, annual transaction costs were estimated to be £20 billion (Pollock, 2007). More recently, Dr Clare Gerada, chair of the Royal College of General Practitioners, told the Commons Public Accounts Committee that the cost of GPs being involved in commissioning consortia would be £300 million a year in GP time alone (Dowler, 2011).

There is another element to the discussion on bureaucracy in public services and that relates to accountability and equity. The public sector is built around a different set of values from those of the private sector. It serves and is accountable to the citizen. It is not accountable to a group of shareholders seeking to maximise their return. That does not mean that it is inattentive to efficiency and effectiveness (far from it) but it means that it provides services with an emphasis on the values of equity, impartiality, political neutrality, probity, trustworthiness, incorruptibility, universality and citizenship. The job of the much maligned bureaucracy is to ensure that services are delivered in this fashion. Services do not always meet these aims of course, but their importance in the minds of the public can be seen with the outrage over ‘postcode lotteries’ that emerges whenever a service in one part of the country does not match its counterpart elsewhere.

If services are fragmented under the guise of competition and ‘localism’, then there is a real danger of a decline in standards of provision in some areas. This would not be the “postcode democracy” that Nick Clegg boasts about (2010) – nobody votes to receive worse education or health services. What the coalition is proposing is to embed postcode lotteries into the DNA of public service provision in this country. In some services, a range of different priorities and levels and types of service offered may be a positive development. But that would crucially depend on the responsiveness of the service to the local communities and service users – and not just through the crude measure of the market. In other services, it is easy to imagine that variation in provision in different parts of the country to different communities would be most unwelcome.

Francis Maude claims that mutuals will have to minimise spend on administration and overheads while they deliver improved services at less costs. He says that this would not be hard to do, and points to the "frustrating mountains of paperwork" faced by public service workers (Maude, 2010: 5).

However, if a public sector unit is 'spun out', it will inevitably have to deal with additional administration and management tasks ('bureaucracy') that were previously dealt with centrally within the local authority or NHS trust for example. Human resources, legal issues, IT, finance, sales, marketing will all have to be provided by the new mutual or bought in from outside. These are all areas of expertise that the managers of the new mutual are unlikely to have because they did not need to have them while part of the public sector. In fact, the Tribal (2009: 86) report for the Department of Health pointed out that "new social enterprises may be at a competitive disadvantage in terms of not having the same legal and HR back-up as commercial providers".

In addition, there will be a massive duplication of functions as each of the new organisations has to develop its expertise in HR and much else, just at the moment that the government is re-centralising HR policy within the civil service in order to cut duplication and make efficiencies (Baker, 2010).

Furthermore, there are questions about whether mutuals are or would be closer to service users than public service providers such as the NHS.

Innovation

Francis Maude (2010: 7) claims that he wants to "liberate public service workers so that they can develop new types of services". As an example, he refers to the justice system and argues that groups of prison and probation officers could get together and form a mutual that could "challenge the current delivery model and deliver better outcomes" (Maude, 2010: 7). The obvious question is why has the government not removed the obstacles that prevent prison and probation officers working together in an innovative and more effective way? Why does it require these groups of workers to be removed from the public sector before they can work together? Why cannot the obstacles be identified and removed, and new forms, structures and flexibilities deployed within the public service to 'liberate' workers and allow them to provide a better service? How and why does it require a market to liberate these workers?

Yet the coalition is relying on the market to release what it sees as the hitherto frustrated innovative approaches of public service workers. In fact it may well have the opposite effect as is suggested by the results of the large-scale study commissioned by the Department of Health into NHS staff experience and attitudes (Ipsos MORI, 2008). The report found that as a group of staff, they are "altruistic in outlook, creative, problem-solving individuals who are keen to make a contribution" (Ipsos MORI, 2008: 21). But the very element that the coalition would like to promote – a more business-oriented approach – is itself a problem:

> they are frustrated by the system within which they work… many see the NHS serving a business agenda, driven by financial considerations and irrelevant targets.
> (Ipsos MORI, 2008: 22)

In its inquiry into the broader picture of third sector provision of public services, the Public Administration Select Committee (PASC) concluded that while innovation was possible under contractual conditions, "contracts and innovation are uneasy bedfellows" (PASC, 2008: 15).

This is supported by a study of the impact of competitive tendering on the service delivery voluntary sector in Oxfordshire, which found that one of the main concerns was that:

> a narrow contracting ethos might discourage service providers from being flexible or innovating – or from doing any more than the minimum specified in the contract (OCVA-Framework 2008: 12).

In contrast to the regular claims made by ministers, Ellins and Ham (2009: 50) point out that "employee-owned organisations can become inward looking and may lack the capacity to innovate". Leadbeater and Christie (1999: 23) claim that while innovation should be easier for mutuals:

> Membership involvement in a mutual does not automatically confer upon the organisation the innovative capacity their advocates claim. Much depends on how mutuals are managed to make the most of their strengths.

Given the criticisms of public sector provision as a 'producer interest', which delivers services in the interests of those who work within them rather than those that receive them, it is interesting to see Packwood's (2007: 30) observation that:

> Many voluntary and community sector groups still write a tender based on what they want to deliver, rather than what the commissioner wants to buy. VCS groups are often more concerned with the process that their work undertakes with children, young people and families than the product or outcome that is achieved.

In their study of the role of community-based organisations and their contribution to public services delivery and civil renewal, Cairns et al. (2006: 6) found that they had become less responsive to local circumstances because of their preoccupation "with providing public services and with ensuring their own financial sustainability". The process of marketisation and tendering for contracts inevitably changes behaviour among mutuals competing to provide public services. Increasing reliance on government contracts carries a danger of 'mission drift' in which mutuals are more responsive to the commissioning body than they are to the user group.

Similarly, based on their comparison of voluntary and community organisations between 1994 and 2006, Osborne et al. (2008) claim that these organisations are not inherently innovative and that innovative capacity varies according to the public policy context of the day. So when the emphasis shifts to public service delivery, a corresponding reduction in the innovative activity of these organisations takes place.

Problems of competition, sustainability and finance

There are many problems with the model of public sector reform being implemented by the coalition government, including the threat to the public service ethos, the enforcement of inappropriate private sector business practices and the attempt to undermine collective bargaining and union membership. But one of the most serious dangers is the fragmentation of public service provision and the associated attacks on the principles of universality and equity. Nowhere is this more obvious than in relation to healthcare. As Dr Mark Porter, the chairman of the British Medical Association's hospital consultants committee put it:

> Very deliberately the government wishes to turn back the clock to the 1930s and 1940s, when there were private, charitable and co-operative providers of healthcare. But that system failed to provide comprehensive and universal service for the citizens of this country. That's why health was nationalised. But they're proposing to go back to the days before the NHS.
>
> (Campbell, 2011)

The coalition's public sector reform policy (much like that of the previous Labour government) rests on the view that competition in public service provision will drive up standards and drive down costs. This in turn relies on the creation of a market in which 'inefficient' providers will be forced out of business and replaced by 'efficient' ones. There needs to be a certain amount of over-supply in the market and ministers obviously regard the prospect of some future public service mutuals going bust as a price worth paying.

To sustain themselves, the new mutuals will have to generate an income stream. This will come either directly from service users or from the government in the form of a contract. Most new mutuals 'spun out' from the public sector will take with them an initial contract from their parent body. The new mutuals will have to develop a long-term business plan that will sustain the organisation beyond the lifetime of the contract inherited from the previous parent organisation. John Erdal of the Baxi Partnership (an employee-owned company that assists others to follow in this route) argues that public sector organisations that move into employee-ownership need time to make the transition: "Relatively long initial contracts can provide it." (Erdal, 2011: 15). However there is no indication that this will happen. Francis Maude has said that he will only 'explore':

> where public procurement processes allow for staff forming a mutual to be awarded a contract to continue providing services.
>
> (Maude, 2010: 5).

Because they will be new organisations, without any market track record, "employee-owned organisations may be especially vulnerable to the effects of market forces" (Ellins and Ham, 2009: 68) and an increasingly competitive market will clearly pose "a risk in terms of their long-term sustainability" (Ellins and Ham, 2009: 66). This point was underlined by the study of DH Pathfinder social enterprises, which found:

> The relatively low engagement in marketing activities and competitive analysis by the pathfinders thus far may leave them vulnerable to competition and with unrealistic plans for success.
>
> (Tribal, 2009: 10)

So what happens if one or more of the new public service mutuals goes bust? This will almost certainly happen. There have been casualties even with the handful currently in existence. Secure Healthcare was set up as a not-for-profit organisation that provided NHS care for prisoners. It had a £5 million contract with the NHS to provide healthcare to Wandsworth Prison. It went bust in 2009 owing £1 million, and the service had to be brought back into the NHS (Gould, 2009). Not only were the jobs of 70 employees at risk but also there was a serious threat to the continuity of service provision to the 1,600 prisoners covered by the contract. So what will happen in the future if a mutual collapses? What will happen to the staff? Who will pay the redundancy bills? How will the service be protected?

Even if mutuals survive, there is a very real danger which is recognised by several commentators (Tribal, 2009; Marks and Hunter, 2007) that after the initial tender, mutuals or other forms of social enterprise will be replaced by private sector for-profit competitors. In such a case, the move to mutualism would be just a stop on the route towards traditional privatisation. Ellins and Ham (2009) draw a parallel between the employee buyouts following the deregulation of the municipal bus services of the 1990s, and today's position in relation to the NHS. They point out that although by 1993, 30% of the service was being run by employee-owned companies this:

> ultimately proved unsustainable as the service went through a period of intense competition resulting in multiple mergers and takeovers. Now only a fraction of the original employee stake remains.
>
> (Ellins and Ham, 2009: 38)

In their view this raises questions about the sustainability of employee-owned public services operating within a competitive market. Writing in the Guardian Public, David Floyd (himself a managing director of a social enterprise) warned that one of the key factors in the success or failure of mutual spin-outs from the public sector would be the sustainability of the project (Floyd, 2010). He points out that former public sector workers who go with the 'spun-out' mutual may find that their organisation could lose its delivery contract within three years (or less) to a private sector competitor less concerned with providing decent pay and conditions for staff, or even that the commissioner could decide to cut the service completely now that it was no longer an integral part of the parent body.

Mutuals will almost certainly need to gain access to capital to sustain and develop their operations. This has often been a problem for mutuals but it may be possible to borrow against assets of the mutual. It is not clear as yet how the government intends to deal with public sector assets and whether (and how and with what conditions) such assets will be transferred to the mutual. After all, these have been paid for with taxpayers' money and there would be great concern if these were seen to be given away to what are essentially private organisations. The idea of the asset lock is therefore of considerable importance. An asset lock is associated with a community interest company or the recently legislated community benefit society, and means that the assets of all types (including any surpluses) are locked within the organisation or transferred to another asset-locked body on winding up. It is intended to prevent asset stripping or demutualisation as occurred with the building societies in the 1980s and 1990s.

For an NHS unit or other body within the public sector, working for one customer goes with being part of an integrated service. For an independent provider, whether social enterprise or private sector, it represents a weakness in the business plan. Over-reliance on one customer leaves a provider very vulnerable, so it is in their interest to spread their commitments among a number of customers. There are obvious potential dangers to an integrated service with such a business plan.

If the mutuals are successful in terms of sustaining themselves or growing, what happens to any surplus or profit they generate? Will they simply distribute it among the employee members along the lines of the John Lewis Partnership? And if so, what then is the difference for public service delivery between this mutualisation and a straightforward privatisation in which the profits are distributed to the shareholders?

Ownership, governance and accountability

The government wants to change the pattern of ownership of public service providers – removing what remains in the public sector and "empower[ing] millions of public sector workers to become their own boss" (HM Government, 2010a: 29). This raises a number of questions about the public interest and how this is maintained – issues of governance and representation, as well as those relating to borrowing arrangements and asset locks (Davies, W, 2010a: 2).

If ownership of public services is distributed among a constellation of mutuals, co-ops, private sector companies and a residual public sector, where does responsibility for the maintenance and quality of those services rest? And how will such accountability be meaningful and accountable, and to whom? If the main vehicle for accountability is the contract between the provider and the commissioner, then this is a severely limited and threadbare form of accountability.

In its study of pathfinder social enterprises in health and social care, Tribal (2009: 76) reported that one of the main benefits in the view of the pathfinders was that "staff and patient service users would have greater involvement in the development of services". This idea that there will be greater involvement and engagement of the staff, the users and the general public in a mutual than under current provision is repeatedly made by ministers and their supporters.

Given the importance that the government attaches to employee ownership, it is interesting that one of the examples they cite is actually majority owned by private financiers. Francis Maude (2010: 9) points to Circle Healthcare as an "employee-owned social enterprise", but as the BBC notes (BBC online, 2010), in fact it is majority-owned by City investors through an investment vehicle called Circle International plc (Circle Healthcare, 2010). It now has the franchise to run Hinchingbrooke District General Hospital. It is aiming to take advantage of the favourable political climate by expanding its operations. In December it concluded a deal with Ropemaker Properties (the real estate investment arm of BP's pension fund) by which Ropemaker has acquired a site for a new Circle hospital, and will provide the financing for its construction as well (HealthInvestor, 2010).

This example illustrates that the government is prepared to be a little loose with what it means by employee-owned. The Employee Ownership Association (EOA) suggests that to describe an organisation as employee-owned, employees must own at least 51% of the organisation:

> There is a wide range of ways in which employee ownership is structured, although there is consensus that the principle that employees can own a controlling stake – or in other words, at least 50% of the voting shares – is a fundamental one.
>
> (Bibby, 2009: 6)

The EOA uses a different term – co-owned companies – for those cases where the workforce has a significant stake, but not a majority holding. In any event, even the supporters of employee ownership concede that:

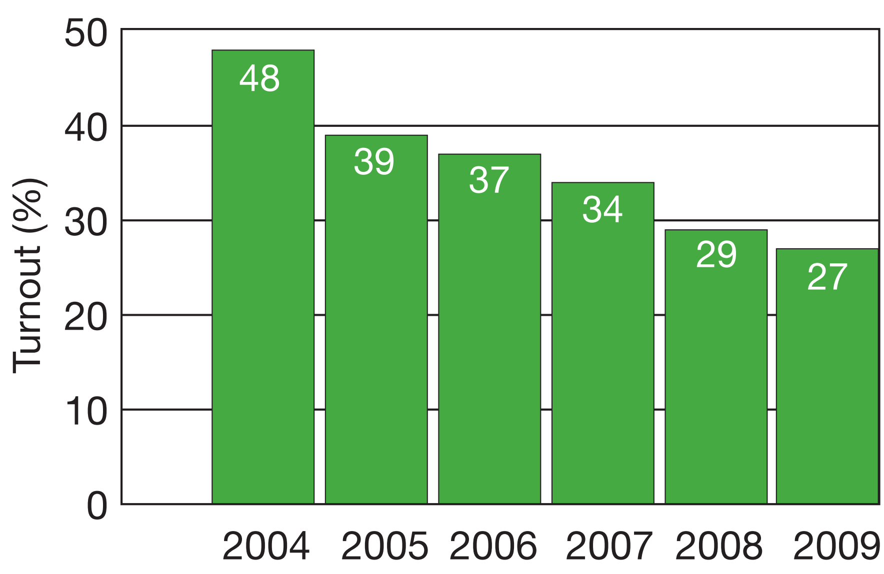
> ownership in itself is not sufficient to deliver the advantages claimed for mutuality. Equally important is staff involvement in decision making and the development of a culture of ownership that gives staff a real voice in the organisation.
>
> (Ham and Ellins, 2010)

The form of governance structure has a major influence on how the organisation operates and is perceived. Michael Stephenson, general secretary of the Co-operative Party, argues that there is a need for a clear mutual governance structure. Unless there is a structure that retains the mutuals as community assets in which all members of that community (service users and staff) have a say in how they are run:

> those services become vulnerable to either collapse or the intervention of a private sector provider. It is Thatcherism disguised as mutualism.
>
> (Stephenson, 2010)

But Stephenson also cites the Foundation Trust Hospitals as one of the "concrete examples of how mutualism became reality under Labour" (Stephenson, 2010) and yet there are some serious problems about accountability and governance within the Foundation Trusts – not least engagement by their 'membership'. Members drawn from staff and the public, including patients, elect (most) of the board of governors of the Foundation Trust (a minority are appointed by partner organisations). These in turn appoint the chair and non-executive directors. The board consists of the non-executive directors, the chief executive (appointed by the non-executive directors) and executive directors appointed by the chief executive (Ham and Hunt, 2008). There has been a steady decline in participation from both sections of the Foundation Trust electorate – staff and public – as the following graphics illustrate.

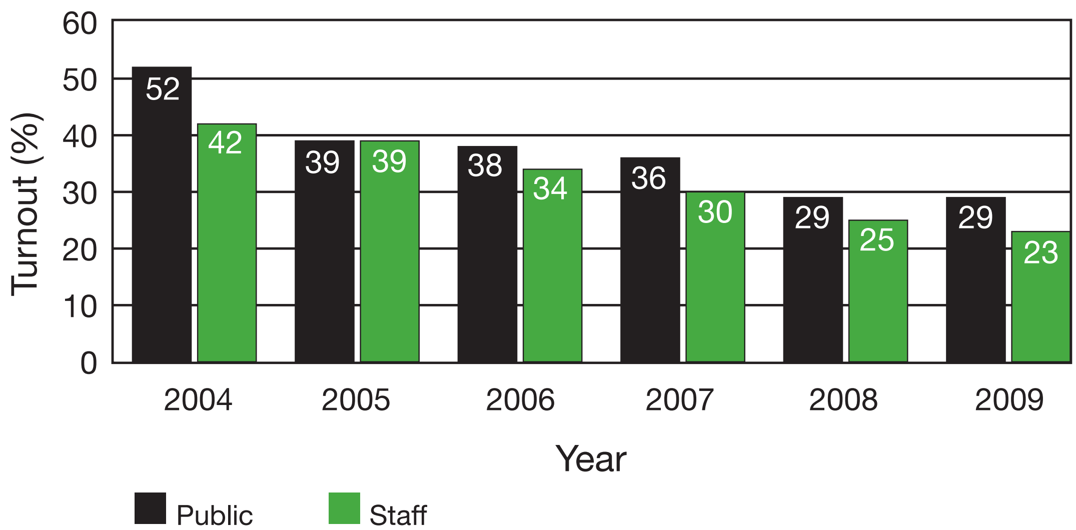
Figure 2: Turnout in Foundation Trust elections 2004 – 2009



Source: MES/ERS (2010)

Since 2004, turnout has relentlessly declined, slumping by almost half, from 48% in 2004 to 27% in 2009. The average turnout for the five years is 34%. Staff engagement is even lower as shown in Figure 3.

Figure 3: Public/staff turnout in Foundation Trust elections 2004 - 2009



Source: MES/ERS (2010)

The average number of uncontested elections over the same period has increased by 81% (MES/ERS, 2010). These sorts of figures led Conservative MP Peter Bone (then a member of the Commons health select committee) to describe Foundation Trust governing boards as “self-selecting cliques” (Santry, 2009). This is not new: as early as 2005 researchers found that participation in Foundation Trusts was low and so too was participation from members. In addition there was little evidence of any attempt to ensure that the members were representative of the community from which they came (Day and Klein, 2005).

A study of Department of Health social enterprise pathfinders noted that staff engagement was a key aspiration of the social enterprise model but that although most of the pathfinders intended:

> to give staff a stake in the business, either through shares or board membership – or both – most were not yet at the stage of having been able to do so in practice by the end of the research period.
>
> (Tribal, 2009: 53)

Of those that were planning some form of staff engagement, the options being considered included:

- a share scheme for staff
- distribution of profits
- a partnership model with staff being offered a stake
- membership (of the co-operative), on an application basis
- staff and user representatives on the board
- offering the local population the opportunity to take a stake in the organisation.

The report identified a number of areas of concern:

- whether staff/service users would be able to afford to buy shares and the impact on the success of the social enterprise model of a low level of 'buy-in'
- linked to the above, whether staff/service users would be willing to take on the financial liability that is associated with share ownership
- the ability of the social enterprise to distribute benefits to shareholders being predicated on the enterprise making a surplus, and the negative impact on motivation and commitment if they are unable to do so
- the tension that exists between reinvesting in the community (the basis for being a social enterprise and being able to deliver the quality of service to which the social enterprise aspires) and staff recruitment and retention (through paying competitive salaries and offering rewards through dividend payments).

(Tribal, 2009: 53)

What about the workers?

If the success or failure of mutuals depends on the commitment of the staff moving over from the public sector, then they need to be confident of their future prospects. Even some of those in support of the general idea of mutuals delivering public services can see some potential problems. Ed Mayo, the secretary general of Co-operatives UK and a member of the government's Mutuals Taskforce warned:

> The obstacles facing staff in terms of financial uncertainty, mixed messages on pensions and a lack of understanding of co-operative models in departments are still very real… There is also a need for the option of including the people who use services in new mutuals, particularly at a local level.

(Giotis, 2011)

As an indicator of that uncertainty, two enthusiasts for the mutuals model have outlined diametrically opposite approaches. Geoff Walker of Sandwell Community Caring Trust argues that mutuals can provide better, cheaper services and still preserve public sector pay and conditions. He claims that the key is to improve the working environment. The staff then feel more valued and fulfilled and sickness absence declines markedly. On the other hand, spin-out consultant and Liberal Democrat councillor, Craig Dearden-Phillips of Stepping Out, does not believe that new social enterprises should have to maintain public sector pensions for staff (Floyd, 2010).

When Hull's City Health Care Partnership left the NHS as one of the new mutuals, it followed three years of preparation. The last Labour government provided a number of sweeteners to assist in the spin-out: NHS staff that transferred kept their pensions and terms and conditions, and the new mutual was guaranteed a three-year contract to provide services to the NHS (Butler, 2010). It is unlikely that such guarantees will either be offered or sustainable if mutual spin outs become commonplace. Instead we will see a rapid intensification of competition for the contracts on offer. With such competition will come an inevitable pressure on costs, primarily staffing costs – jobs, pay and conditions. This has already been the experience of the voluntary sector once reliant on public sector tenders (Cunningham, 2008). Equally inevitably this will have a detrimental impact on the quality of service as staff suffer from burn-out and disillusionment (Cunningham, 2008), resulting in retention problems.

In its report to the Department of Health on health social enterprises, Tribal (2009: 6) identified one of the "crucial barriers" to progress on the pathfinders as being "uncertainty over pensions". The coalition has made no promises to continue allowing those that transfer to remain within the NHS scheme. In a speech on public service mutuals, Francis Maude (2010: 11) referred approvingly to Lord Hutton's interim report on public service pensions, saying that:

> extending access to public service pensions schemes for non-public service employees is probably not an appropriate long-term solution either for government, or for some external organisations.

In fact the Hutton Report is more forthright than this (Independent Public Service Pensions Commission, 2011: 15), claiming that:

It is in principle **undesirable for future non-public service workers to have access to public service pension schemes,** given the increased long-term risk this places on the government and taxpayers. *[emphasis in original]*

This will no doubt cause great concern to public service workers, and will mean that fears about maintaining access to public sector pensions (in the NHS and other parts of the public sector) will remain a barrier to staff making the transition to a mutual (Ham and Ellins 2010).

But pensions are not the only issue; there are a whole series of other areas that workers will need clarification on in order to assess the likely impact of a move to a mutual:

- the legal form that the mutual takes and the framework for providing individual workers with a say in its running
- the level of funding that can be expected from the commissioning body
- the nature and length of the initial contract
- the likely shape of the competitive market that the mutual will face at the end of the initial contract
- the forms of accountability that will exist for the service users and the commissioning body

- the procedure for determining pay and conditions
- the role of the staff's union and collective bargaining
- the nature of any asset lock.

Worker commitment

Welcoming the chancellor's recognition of co-operatives in the comprehensive spending review, Ed Mayo, secretary general of Co-operatives UK, stressed that:

> We need to ensure that the new mutuals are true to their values and principles and come about through bottom up demand by public sector workers themselves
> (Co-operatives UK, 2010)

Despite this, a number of primary care trusts have pushed through moves to create social enterprises without bothering to ballot staff and against the views of staff representatives, for example, in Medway in Kent and Kingston in Surrey (Durham, 2009; Elledge, 2009). There are already signs that, given the choice, public sector workers are less than enthusiastic about the mutual option. In their study of the West Midlands NHS, Miller and Millar (2011: 11) found that:

> many parts of the NHS system - clinicians, commissioners and boards – are still to be convinced of the potential of social enterprises within health care.

West Essex PCT was selected as one of the first 20 to set up a social enterprise under the right-to-request arrangements. A ballot of the 1,000 staff eligible to vote produced a 70% turnout and a vote of 73.7% against, with only 26.3% in favour (Hampson, 2010b).

A similar story took place in Shropshire PCT when a ballot among its 1,200 staff produced a rejection of the social enterprise option. Services will now remain with the NHS (Hampson, 2010c).

NHS North of Tyne (the commissioning organisation for three trusts - NHS North Tyneside, NHS Newcastle and Northumberland Care Trust) was due to hold a ballot for community staff to vote on the possibility of setting up a social enterprise. However, the ballot was suspended after the organisation revealed it had been told by the Department of Health it could no longer stand by the previous government's pledge to provide three-to-five-year contracts for community services (Clover, 2010).

Miller and Millar (2011) found that a proportion of NHS right to requests were motivated not by any great commitment to mutualism but by a desire to avoid something considered to be even worse – such as the service being put out to tender.

A right to request in the private sector?

The coalition is keen to encourage the establishment of mutual spin-outs from the public sector, arguing that mutuals bring with them all sorts of advantages over the state sector. However, despite repeatedly pointing to John Lewis as an exemplar, the government has said nothing about encouraging the growth of mutuals to take over from private sector companies. As Ed Mayo, the secretary general of Co-operatives UK has pointed out, it is ironic that all the attention has been on mutuals replacing the public sector when it is the failings of the private sector that have had such an impact on the economy over the last three years (Bachelor, 2010). This is especially the case for the financial sector, and although the government took decisive shareholdings in a number of different banks, there appears little enthusiasm to mutualise these undertakings – even for those that were mutuals at one time, like Northern Rock.

Similarly, the coalition has had nothing to say about an obvious area for the extension of mutualism – among the private sector providers of public services. If Francis Maude and his colleagues are serious about setting workers free "to let them take control of their organisations" and "have more control and autonomy over how things are run" (Maude, 2010: 2), then why can't the right to request the opportunity to form a mutual be extended to those in private sector providers of public services as well as those in public sector providers? Why can't the opportunities being offered to workers in local authorities, the NHS and the civil service be replicated for workers in Capita, Serco, Compass, Tribal and Sodexho?

Where services have already been contracted out to private companies, it would be logical for the government to encourage their conversion into mutuals or at the very least to allow the staff within to have the legal right to request such a change. As William Davies (2010b) points out: "Mutualism makes private sector organisations more attuned to the common good…"

There are two areas in which the government could introduce new measures to assist in the growth of mutuals in the private sector: tax and financing. William Davies (2010b) suggests the re-introduction of tax advantages for employee benefit trusts, funded by either reducing or removing tax advantages in other share ownership schemes. He also calls for assistance for mutuals in accessing finance. Mutuals cannot access the equity markets, and so are forced to rely on debt finance in a very difficult economic climate. He suggests that the fully and part-nationalised banks (together with the Post Office) could provide financial support.

Besides "setting public sector workers free", another stated goal of the coalition's public sector reform programme is "a transfer of power from central government to local communities" (Cabinet Office, 2010c: 6). They have yet to explain how a programme of outsourcing to private sector companies will achieve that. In fact they deliberately cloud the issue by including within their definition of 'civil society', those mutuals and co-operatives that "are profit-making businesses, which operate for primarily commercial objectives" (Cabinet Office, 2010c). On the other hand, a programme that allowed both service users and workers of private sector contractors to opt for mutualisation would at least be consistent and offer some possibility of a transfer of power away from multinationals to local communities.

The best of both worlds?

If innovation, responsiveness, user-focused services and flexibility are seen as characteristics valued in the mutual sector, what scope exists for their introduction or expansion in the public sector? And what prevents, or has prevented, their adoption to date? In a study of social enterprise in the NHS, Marks and Hunter (2007: 50) report that, in the view of some of their interviewees:

> not enough had been done to promote in the NHS the qualities associated with social enterprise, and that flexibilities already existed to be able to achieve this.

Innovation needs time, space and managerial support to thrive. There is no real reason why mutual approaches cannot be implemented within the public sector. Some parts of the public sector already do offer support to innovative approaches and try to involve service users and client groups. It does not require a mutual spin-out to involve both staff and users in the service more effectively – particularly in the design, improvement and monitoring of the service. Jo Ellins of Birmingham University emphasises the benefits of building in opportunities for staff to participate and of ensuring a collective voice for staff within the organisation: "It's only where you see these factors that you see the benefits." She explains that the organisational model is less important than the culture of employee participation: "Getting the engagement and participation right ought to be the first step" (NHS Employers, 2010).

Support for this comes from other research within the NHS. West et al (2006: 987) found that those health care workers with higher levels of direct involvement in decision-making also report "high levels of role clarity, loyalty, innovation, and cooperation with co-workers which, in turn have been related to quality of patient care".

Although they broadly favour the introduction of mutuals in the NHS, Ham and Ellins (2010: 1176) argue that there needs to be much greater engagement of staff in decision–making and they concede:

> Changing cultures is much more difficult than altering structures, but it is essential if further improvements in performance are to be achieved. This has implications for workplace relationships and calls for leadership styles that foster collaborative approaches to problem solving.

Research shows that this can occur, and does occur, within the public sector. Co-op Trust schools are an attempt to incorporate the positive features of mutualism within the context of public sector provision, remaining integrated into the local authority education system. A study of staff involvement in the NHS (West et al, 2005, cited by Ellins and Ham, 2009: 26) found that where there was a high degree of staff involvement and a supportive organisational culture, there were significant positive associations in terms of lower levels of sickness absence, patient waiting times, complaints and mortality, and higher levels of innovation, job satisfaction and cooperation with co-workers. A separate piece of research (Dawson, 2009) that examined the links between NHS staff's working experience and patient experience of care found similar results, with better patient care corresponding with a more positive working experience for staff.

Singer (2010) argues that:

> A more democratic form of state ownership – and one in which control is ceded to staff and users where possible – is indeed worth striving for.

However he says that, although there is a rich debate to be had on this subject, it should not be "bolted on to the market-driven model of the last 30 years", which is exactly what the current government is doing.

If staff and users were involved, they could quickly identify superfluous procedures and practices and end them. There should be a discussion involving both users and staff about what reporting is necessary – to fill statutory obligations, assist with future planning and so on – and unnecessary reporting should simply not take place.

Conclusion

The public sector has been hugely successful in providing universal access to essential public services for the entire population, regardless of income. The creation of the welfare state ended the arbitrary and inadequate patchwork of provision that existed when charities, co-operatives, the private sector and municipalities shared the task. The public sector brought equity and justice as well as universality. Services were accountable to elected representatives and integrated within a national system. The welfare state was not perfect and UNISON has been one of its sternest critics whenever it has failed to live up to the ideals of its founders. The last few decades have seen a concerted attack on many of the principles of the welfare state.

For many years UNISON has campaigned against the marketisation of public services and the reduction of accountability within those services to a crude cash nexus and the blunt instrument of contractual relationships. Therefore any serious effort to extend staff and user involvement in the design and running of services would be welcomed, as would any concerted programme of service improvement. There needs to be an approach that is developed in concert with staff and users that provides autonomy and devolution of decision–making where practicable within an integrated national service where relevant.

Mutualism claims many attractive characteristics, particularly when compared with the key drivers and features of the private sector. The emphasis on engagement of the workforce, involvement of clients, innovation and flexibility are all qualities that should be part of the day-to-day work of public service provision. There is no reason why these virtues should not be present in all public sector provision and in the best parts of the public sector, they are. Equally there is no reason why outsourcing and marketisation are necessary to achieve this.

The government claims that its interest in the opening up of the public sector to competition, the development of markets in public service provision and its encouragement of staff to form mutual spin-outs is all to do with service improvement and "setting public service workers free". However, the fact that it has nothing to say about the extension of mutualism in the private sector in general, or among the private sector contractors providing public services in particular, shows the hollowness of the government's claims and the lack of commitment to the values of mutualism. The real objective is to shrink the state and marketise all public service provision. The government is not interested in whether public service mutuals will exist in five years time, just so long as they form a useful vehicle for the break-up of the public sector today.

If the government was serious about the perceived advantages of mutuals, it would be looking to extend them to the private sector as well as the public sector.

If it genuinely believed that the claimed attributes of mutualism were beneficial to public service provision, it would be examining with the staff how best to introduce greater staff engagement and user involvement without necessarily spinning out public service units into mutuals.

If ministers are convinced that staff engagement is a key indicator of the likely future success of a spin-out, they would guarantee a binding ballot of all affected staff to decide whether a unit is spun out of the public service.

If the creation of mutuals was not a cynical precursor to large-scale privatisation in the second round of tenders, the government would guarantee long-term contracts and a rock-solid asset lock that would prevent asset strippers and carpet baggers from looting assets (that are owned and were paid for by the public) at a later date. This is important, not only for any employee-led mutual spin-outs, but also for any public assets removed from the public sector under the terms of the Localism Bill, once enacted.

If the coalition wants to reassure staff that this exercise is not simply part of an ideological programme for a smaller state, then it should guarantee that current and future staff in public service mutuals will be entitled to remain in the appropriate public sector pension schemes.

Unfortunately, there is little evidence that the mutuals programme is anything other than a cynical exercise in public expenditure cuts. However, that does not mean either that there is no role for mutuals or that many of the characteristics associated with mutualism do not have an important part to play in public service provision. The government faces three 'good faith' challenges about its mutualisation programme.

1. Introduce a large-scale programme to mutualise the private sector contractors currently providing outsourced public services. This would be welcomed by both UNISON and the wider public. It would bring an element of democracy into contractor provision for the first time.

2. Protect those units that have already been spun out from being swept away by loss-leading bids from multinationals by guaranteeing long contracts and by ensuring that their assets are permanently locked for the benefit of the community.

3. Finally, new mechanisms should be explored to involve staff and users across the public services in discussions on both the design and delivery of services. UNISON is already discussing with the co-operative movement how best to bring together the best of both worlds within an integrated public service provision, and this collaboration should be strengthened and extended both with the co-operative movement and the mutual and social enterprise movement.

Glossary of organisations

The Co-operative Party sees itself as the political arm of the co-operative movement.

Co-operatives UK is the national trade body that campaigns for co-operation and works to promote, develop and unite co-operative enterprises.

The *Employee Ownership Association* describes itself as the voice of co-owned business in the UK – a network of over a hundred companies with significant employee ownership.

The *International Co-operative Alliance* (ICA) is an independent, non-governmental association which unites, represents and serves co-operatives worldwide.

The *John Lewis Partnership* is the most well-known employee-owned business in the UK. Its 76,500 permanent staff are 'partners' in the business.

Local Partnerships is jointly owned by HM Treasury and the Local Government Association and provides commercial advice to the public sector.

Mutuo sees itself as a think-tank and lobbying organisation for the mutual sector.

The *Mutuals Information Service* is a partnership of Local Partnerships, Co-operatives UK and the Employee Ownership Association to provide a signposting service for staff in the public sector interested in setting up a social or mutual enterprise.

The *Social Enterprise Coalition* describes itself as the UK's national body for social enterprise.

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