

# THE SOCIAL ECONOMY ALLIANCE

## CONSULTATION PAPER – SERVICES FOR THE PUBLIC

How public service reform driven by more localised, democratic and participatory models, multi-stakeholder ownership, co-production and social innovation can help address poor value for money in procurement, a shift to preventative interventions and align interests between taxpayers, public servants and public service users.

### SERVICES FOR THE PUBLIC?

Demographic and societal changes are putting severe pressure on our public services. Local authorities' entire budgets could be swallowed within a decade by the demands of social care alone. Youth services have been decimated and pressure builds on the NHS, welfare to work services, mental health and public health, education, criminal justice and local authorities. Many people are dependent on resources which are in decline.

Where the state still delivers services for the public, critics attack waste and perverse incentives, vested interests against reform, bureaucracy, endless reorganisations, a lack of innovation and services driven by the interests of staff not users, short-termism and narrow empire building, a lack of focus on outcomes, prevention and managing demand. Public monopolies don't appear capable of responding to the challenge we face.

Yet where the private sector has been ushered in to enable reform, the consequences are often no better. The outsourcing market is now worth somewhere in the region of £100 billion per year as successive administrations have outsourced services such as waste management, children's homes and prisons, sometimes with terrible consequences. The conflict between short-term financial rewards and a long-term public service ethos often appear to be irreconcilable. In children's care, the private sector runs 65% of residential homes but a third do not meet the Government's minimum standards, with private sector providers more likely to be rated as inadequate<sup>1</sup>. In adult social care, 1 in 3 patients in care homes fear physical abuse or harm and 65% of jobs are in the private sector<sup>2</sup>. We now have the most privatised prison system in Europe but services have been taken back into the public sector following serious failings in provision, criminal investigations and scandals. In Welfare to Work services, private providers have been assessed as 'unacceptably poor' and Work Programme providers come under sustained attack. Most citizens now believe that it is unacceptable for shareholders to make a profit from running many public services<sup>3</sup>.

One of the problems here is that where competition has been introduced, we don't really have effective markets at all. A small number of companies - or oligopolies - have large stakes in public service markets, with too much market power over both public commissioners on one hand, and the SMEs in their supply chains who do much of the work on the other. A few providers are now 'too big to fail' and many markets lack any diversity. In prisons, for example, three firms dominate the market. Barriers to entry are high and transaction costs are massive – procurement in the UK is the most expensive in the EU at twice the average. Information is far from perfect with a lack of transparency over who is paid how much for what. Risk ultimately remains with the taxpayer, who still picks up the tab.

This is not all the fault of the profiteers, with commissioning and procurement often too disjointed within the public sector. Artificial administrative boundaries prevent joined-up services, integration and create perverse incentives. KPIs and contractual terms are often complex, clumsy, inflexible and excessive which only adds to costs and shifts

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<sup>1</sup> [http://www.socialenterprise.org.uk/uploads/files/2013/10/out\\_of\\_the\\_shadows\\_report.pdf](http://www.socialenterprise.org.uk/uploads/files/2013/10/out_of_the_shadows_report.pdf)

<sup>2</sup> Ibid

<sup>3</sup> Ibid



them around the system. The scale at which services are commissioned is often unmanageable, with decision-making opaque, removed and distant from service users.

There simply isn't enough money around for us to continue to allow such dysfunctional markets and for profiteers to bleed so much money out of the system every year. The NAO are right to call this "a crisis of confidence" in our public services<sup>4</sup>.

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<sup>4</sup> <https://www.nao.org.uk/report/memorandum-role-major-contractors-delivery-public-services/>



## THE SOCIAL ECONOMY SOLUTION

We believe that public service reform driven by more localised, democratic and participatory models, genuine mutuality of multi-stakeholder ownership, co-production and social innovation can help align interests between taxpayers, public servants and public service users. These models offer an escape from the binary opposition of public versus private, an outdated 20<sup>th</sup> century view of the world. This is not anti-business or anti-state. Neither is it about leaving charities to pick up the pieces. This is not about doing things *for* people, or *to* them, but rather *with* them. This is about putting social value back at the heart of services for the public and a better, more constructive relationship between the state and the market.

There is not one ideal model. But the best providers often share common principles and may embody one or more, or all of the following characteristics:

- A mission in the public interest – an embedded social mission, which prioritises people over profit and which safeguards public assets, ensuring that money stays in the system and is principally reinvested in improving services for community benefit. This social mission can help us avoid the need for overly burdensome contractual complexity and KPIs, and mitigate the risk of perverse incentives.
- Independence from the state – which enables nimbleness, entrepreneurial flair and the ability to innovate and respond to market opportunities, the emerging needs and wishes of ‘customers’ and to join up delivery models across conventional administrative boundaries. This independence can also bring incentives to reduce unnecessary waste and deliver efficiencies.
- A significant degree of employee ownership - staff-owned models can enable higher levels of staff engagement and motivation, greater empowerment in decision making and governance, bringing reduced absenteeism and lower staff turnover.
- Community ownership - genuine patient participation and engagement can bring greater accountability and higher levels of trust and goodwill. Service user ownership can enable earlier user involvement in the design of services and enable patients to directly influence services which are grounded in localities and tailored to individual requirements.
- Transparency – a commitment to openness and accountability with transparent financial, social and environmental reporting allowing customers, beneficiaries, employees and investors to hold the organisations to account.

Social enterprises, co-operatives and community-owned public service providers which tend to embody these principles are already delivering effective local services, delivering value for money for the taxpayer and reducing demands on the public finances. Healthcare spin-outs, co-operative schools, social care spin-outs, housing associations and leisure trusts have thrived since leaving the statutory sector. The market share of these models is growing, as they deliver against the expectations of commissioners, regulators and service users. Co-operative schools have grown from 1 to almost 700, bringing together the voices of parents, staff and students in the governance and management of the schools. Health and social care ‘spin-out’ social enterprises are growing, winning contracts and diversifying income sources. Social enterprise and employee-owned mutuals are picking up an astonishing array of awards for outstanding service. Turning Point, for instance, runs a model of community led commissioning which enables local people to design and deliver local health and social care services in partnership with commissioners and which has delivered improved health outcomes through service redesign, greater focus on early intervention and prevention and reduced costs of service delivery by tackling duplication, development of low cost community-led service models, and stronger accountability and trust between commissioners and communities.

But the answer is not just on the supply side. The public sector needs to take on greater responsibility as a market shaper and market steward to ensure more joined-up services, better contract management, services on a more human scale and greater diversity in the market. Public services can go further in terms of subsidiarity and choice. Budgets can be devolved to individual service users in many cases, overcoming artificial silos and getting increasingly local, flexible, co-designed and centred around the user, sourced locally and sensitive to context.

Inspiring examples include local engagement with PCCs in the East Midlands and target hardening in the West Midlands, adult social care in Hounslow and Grimsby, local area co-ordinators in Derby and Middlesbrough. We can



also learn from further afield, such as in Seoul, where transparency in procurement has been a significant driver of a more effective market. The Greater London Authority is now starting to publish all its contracts.



## WHAT CAN GOVERNMENT DO?

1. Transparency – a whole range of requirements should be extended on both the demand and supply side, including:
  - Freedom of Information should be extended to public service providers (taking into account proportionality and appropriate timeframes);
  - Open book accounting should be rolled out for all public sector contracts worth more than £250,000;
  - Public bodies should release data on contracts, coverage of services, such as places and beneficiaries covered, terms of contracts, unit costs, Key Performance Indicators, and outcome data, etc. to enable open data on the effectiveness of public services; and
  - Public bodies should release data on financial flows to providers and how much is directed towards VCSE, SMEs, private providers, overseas providers and local providers.
2. Fairer competition - the new Competition and Markets Authority should be given greater powers to intervene in public service markets, to scrutinise contracting decisions and prevent unfair competition, with sufficient weight and power to challenge and overturn departmental decisions and to issue penalties. Following the Ministry of Justice's precedent of a 25% threshold, no single supplier should be allowed more than 20% of a public body's budget, of any particular market, and across the whole of the public service market. This would include services delivered within supply chains.
3. Commissioning and procurement – Government can be a more effective market steward, developing a market of more socially responsible public service providers, through:
  - applying the Social Value Act to the purchasing of goods and works and the management of assets, including investments and disposals of capital, land and other assets. Public bodies should be obliged to include social value in their commissioning and procurement and account for how this is generated. This should be supported with Statutory Guidance.
  - localising services – the principle of subsidiarity or 'local by default' should be introduced into public services, handing budgets and decision making down to local authorities, and below, and to individual service users, making procurement more democratic.
  - joining up services – with preventative budgets, in particular pooled together across conventional administrative boundaries. Budgets can be integrated and joint appointments more common. Public bodies could hold a veto over spending by others in the area, ensuring better alignment and less waste.
  - including in tender evaluations, factors such as whether the business uses offshore tax avoidance techniques, pays a living wage, its recruitment approach, support for wage progression and sustained employment, apprenticeships offer, etc.
  - mandating payment terms down public service supply chains. Sub-contractors should not be forced to agree non-disclosure agreements and supply chain arrangements should be transparent.
  - ensuring that performance under previous contracts is part of the decision-making process in all procurement decisions. A user-led rating systems for public service suppliers (along the lines of Patient Opinion and building on BIS's commitment to prototype a new rating service for small firms to judge public bodies on their procurement credentials and for public bodies to rate their suppliers) could give service users greater power in the markets.



4. Social innovation – Government should help enable a shift towards more preventative models, radical innovation, co-creation and collaboration, and governance arrangements in the community interest by:
- making greater use of the emerging EU rules on innovation partnerships<sup>29</sup> to create Public-Social Partnerships.
  - filling the gap between early stage, high-risk social innovation and latter-stage, viable investment ready propositions through cross-cutting and collaborative departmental Innovation Funds, remodelling existing departmental grant funds. This Social Innovation Fund or Funds would provide capacity building and support to grow social impact as well as leveraging in match funding from appropriate partners, learning from the White House's model for funding social innovation and the DWP's work in this area. These funds could be targeted at the more preventative, early intervention end of the spectrum, potentially around themes such as youth unemployment and an ageing population.
  - taking inspiration from Scottish models of Social Impact Bonds and PFI to develop investment models which are more in line with the ethos of the social sector - in order to secure longer-term investment from grant-making trusts and foundations. Such not-for-private-profit models can enable the social sector to invest more in its own role in delivering services for the public with the assurance that money will not leak out to private investors
5. Democratic public services – a Public Service Users Bill should give people more voice and power in decisions on public services, such as a *Right to Recall* a provider in the case of a significant breach of trust, the ability to trigger investigations, the right to choose their own provider in certain circumstances, the Right to Observe the Board of the public service provider, to participate in their local Overview and Scrutiny Committee, etc. New EU procurement directives allow the right for commissioners to reserve contracts to providers with social and co-operative governance models which empower users and the next government should support local authorities and others to use this power in circumstances where public and private models are failing.



## QUESTIONS FOR CONSULTATION

1. Which of these proposals do you agree with?
2. Which of these proposals don't you agree with?
3. Which of these proposals are the most important?
4. What have we missed? Which proposals would you like to add?
5. Which proposals need further work or refinement?
6. Do you have any evidence to support or refute any claims made in this paper?
7. Is there any evidence or examples from other contexts which can inform the proposals put forward in this paper?

