

# Power to public sector workers

## Employee owned co-operatives to enable public sector workers to become their own boss and deliver better services

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### Executive summary

A Conservative government will give public sector workers a powerful new right to form employee owned co-operatives 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.

This is the most significant shift in power from the state to working people since the sale of council houses in the 1980s, which gave millions of people across Britain greater freedom, security and control over their lives.

The new right to form employee owned co-operatives will apply throughout the vast majority of the public sector – including JobCentre Plus offices, community nursing teams and primary schools. Employee owned co-operatives will continue to be funded by the state so long as they meet national standards, but will be freed from centralised bureaucracy and political micromanagement. They will be not-for-profit organisations - any financial surpluses will be reinvested into the service and the staff who work there, rather than distributed to external shareholders.

Employee owned co-operatives will be able to decide on management structures, innovate to cut costs and improve the quality of service, and share any financial surpluses amongst the staff.

With 40 per cent of staff in the public sector saying that morale is low in their organisation, compared to only 16 per cent in the private sector, empowering public sector workers to become their own boss will boost employee satisfaction and improve public sector productivity.

Labour have consistently taken power away from public sector workers. We can't go on like this. Conservatives will empower public sector workers to improve the services they deliver and give them a stake in a stronger and fairer society.

These proposals are the latest in a series of plans that would allow people to enter co-operatives to take back control of many areas of our public and civic life from the state – reducing society's dependence on monolithic government bureaucracies.

We launched the Conservative Co-Operative Movement in 2007 to help people set up their own co-ops to tackle social problems and improve local areas, and more recently announced plans to create a new right of community ownership, allowing local people to form community co-operatives to take over council services and rescue community assets like local pubs or open spaces that are under threat.

**Other examples include allowing parents to set up and run schools, encouraging local mothers to create ‘maternity networks’ that would help improve NHS maternity services, and letting community groups set up housing trusts that could get homes built for local people. As with all these ideas, we believe on the basis of the evidence that giving staff and citizens control over the services they use will dramatically improve their quality.**

## **1. Our proposals**

We want to help transform our public services by giving public sector workers a powerful new right to form employee owned co-operatives to take over the services they deliver.

These could be JobCentre Plus offices, social worker teams, primary schools or any public sector team delivering a function that can be paid according to a simple results-based contract drawn up with central government and its agencies.

Groups of staff will be empowered to set up independent co-operative enterprises – organisations that operate for a social purpose and are fully owned by all staff, not just directors.

### **We will:**

- **Create a powerful new right to become your own boss.** Staff in the vast majority of front-line public service functions will be able to bid to transfer to independence by creating a co-operative enterprise – there are already legally-recognised organisational forms they can simply adopt ‘off the shelf’;
- **Enable shared ownership.** Staff in the new co-operative would be genuine owners of the enterprise. Like employees in co-owned businesses, they would all be able to benefit from its financial success and could vote on how things are run;
- **Create the freedom to innovate.** They would simply be contracted by a relevant government department to deliver the desired outcomes – no more bureaucratic government process targets dictating how to achieve them;
- **Allow staff co-ops to bring in the best expertise.** To help overcome the barriers to rapid progress that co-ops can experience, they will be able to go into joint-venture with outside organisations. Partners could be offered a share of the revenues in exchange for management and operational expertise;
- **Give staff co-ops the freedom to grow.** Once successful, staff co-ops will be able to bid for other areas of government activity, or merge with other co-ops if they wish;
- **Ban profiteering.** While staff will fully own their new organisation, they will not be able to sell off any of the state’s assets they continue to use, like land and buildings. And because we expect them to make big efficiencies and improvements to services, their contracts will ensure any big surpluses they make will be shared with the taxpayer.

## **2. How staff can transform our public services**

Despite record levels of spending on public services under Labour, all the targets, meddling and managerial oversight, the Government’s own figures show that public sector productivity has

not risen, but actually fallen by over three percent since 1997. By contrast, private sector productivity has grown by around 1.5 per cent on average every year in the last ten years. [\[ii\]](#)

At the same time, the morale of public sector staff is now drastically low. Independent research shows 40 per cent of staff in the public sector say morale is low in their organisation, compared to only 16 per cent in the private sector and just 6 per cent in the not-for-profit sector. [\[iii\]](#)

The comparison with the increasing number of organisations which are opting to be co-owned by employees, thereby giving them a direct stake in their success, could not be starker. Studies show that, compared to other organisations, employee-owned ones like co-ops and mutuals enjoy higher productivity and profit, and have lower staff absence and turnover, because both business and employee interests are closely aligned. [\[iii\]](#)

Staff not only benefit by sharing in the organisation's financial success, but also by feeling a greater sense of pride, well-being and commitment in their work – they are even more likely to be motivated to report and tackle poor practice. [\[iv\]](#)

Employee ownership can help organisations become hugely successful. The most famous example is the John Lewis Partnership, whose department stores and supermarkets in its portfolio are all staff-owned. Research by the Employee Ownership Association has also shown that that companies owned by their employees are more resilient than conventionally structured companies, outperforming the market during the downturn and demonstrating a lower risk of business failure (*Press Release*, 10 February 2010).

We want public sector staff to benefit from this model too by creating their own employee co-operatives through which they can directly take over services. It has huge potential to restore the desire and enthusiasm for public service improvement that brought them into their professions in the first place, but which is now being neutered by stifling state bureaucracy.

A new report by the independent think tank, the Innovation Unit, shows how staff taking ownership of public services would yield exactly the same benefits as those seen in business, by creating the 'engagement ethic' missing in today's state-run public services. [\[v\]](#) The report says this will not only improve their effectiveness and cost-efficiency, but will also create economic spin-out benefits for local communities.

The Government's own recent research cites independent polling that says two thirds of people would prefer public services to be run through this social enterprise model, while only one in ten chose the government. [\[vi\]](#)

### **Conservative plans to give people more power and control over their lives**

Our plans to encourage workers to form co-operatives and run their own services are the latest development in a series of proposals the Conservative Party has made to allow people to enter co-operatives to take back control of many areas of our public and civic life from the state – reducing society's dependence on monolithic government bureaucracies. The Conservative Party has a deep affinity with the concept of mutuals and co-operatives – as non-state organisations that help people come together to deliver services together they exemplify our historical belief in the power of community self-help, and will play a big part in our plans to mend our broken society.

We launched the Conservative Co-Operative Movement back in 2007 to help people set up their own co-ops to tackle social problems and improve local areas, and more recently announced plans to create a new right of community ownership, allowing local people to form community

co-operatives to take over council services and rescue community assets like local pubs or open spaces that are under threat.

Other examples include allowing parents co-operatives to set up and run schools, encouraging local nurses and mothers to create 'maternity networks' that would help improve NHS maternity services, letting community groups set up housing trusts that could get homes built for local people, and many more.

### **Labour's lack of vision**

The closest current example of staff ownership in public services is the 'Right to Request' scheme for NHS staff, which allows them to make proposals to Primary Care Trusts for creating independent enterprises.

But even this one small initiative is not achieving the right results. A Director at the Department of Health recently told the *Social Enterprise* journal that Right to Request 'was going over the heads of the health staff who had the potential to make a difference.'[\[vii\]](#) Ministers have admitted that only around 20 enterprises have been allowed since the scheme was introduced in 2008.[\[viii\]](#)

There is no alternative to delivering public services than uniform state provision for staff, unless they leave the profession and work for an organisation that delivers outsourcing contracts for the Government.

### **How staff will be able to set up co-operative enterprises**

The way public sector staff would create their own employee-led organisations would be to set up as co-operative enterprises. This is a very simple process, which is described in detail below, but essentially means that each member of staff can become a co-owner of a new social enterprise that would be directly contracted by government to deliver public services, but which would be independent of the state's managerial control.

The right to propose a staff takeover will be open to staff performing most forms of public service provision. This could include anything from JobCentre Plus offices to government call centres to social worker teams; from executive agencies through to all community-based health and nursing services, and teachers and parents taking over schools.

The process would be directly facilitated by a team in the Cabinet Office. It would identify operations in government where the specific cost streams are known and where staff could potentially be contracted to run the service themselves, and help willing staff initiate the process, with their joint venture partners if they have them.

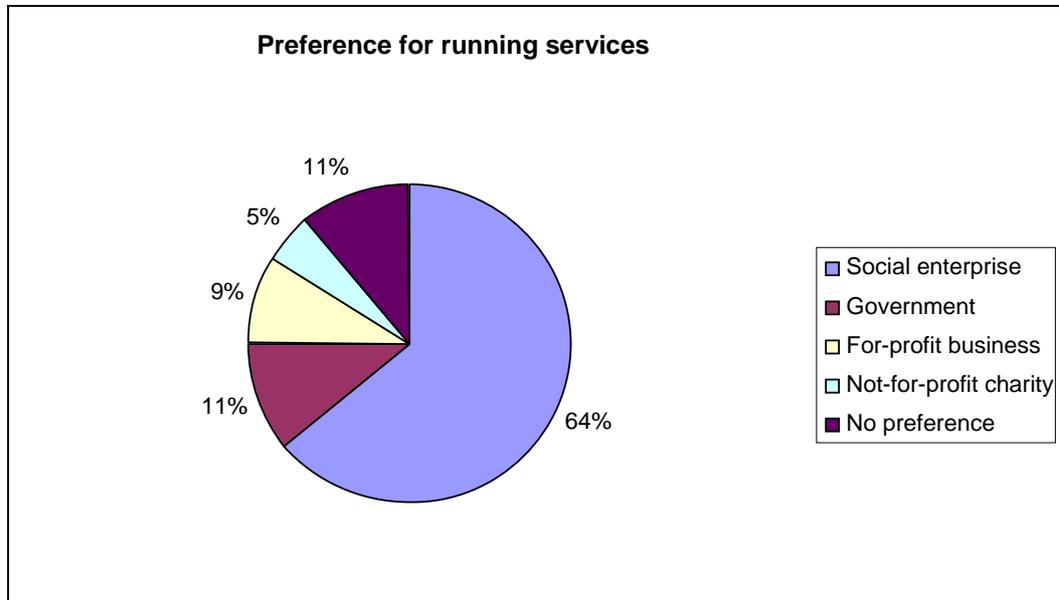
To facilitate staff participation, they will have access to information about the running costs being met by the state for any service that qualifies for potential staff takeovers and will be able to take it over only if they can provide a better and much more cost-efficient service. We will expect staff to have a strong proposal for takeovers to be approved.

As with starting any venture, staff forming a co-op could adopt any legal organisational form relevant to a social enterprise. Staff will fully own their co-op.

### **Public support for the initiative**

The Government's recent report on the NHS 'Right to Request' scheme – the only area where public sector staff can take over services in limited form – cites independent polling gauging people's preference for the type of organisation they would choose to have their services run

by. This shows the social enterprise model (which is what co-ops are) to be an overwhelming winner. They got 64 per cent of votes, compared to 11 per cent for government, 9 for business and just 5 per cent preferring a non-profit charity. The results are shown below:[\[ix\]](#)



### Rewards for delivering excellent services

For staff transferring from an existing executive agency, like a government call centre, or other function that receives a regular government income stream, they will simply be able to convert to a co-operative and then deliver the services independently. Government would negotiate a tariff or payment-by-results contract – based on national standards – for the desired services and outcomes expected, which would provide incentives for staff to provide better services at better value.

For frontline public services, one example could be a local district nursing service. As long as they can deliver NHS standards of care, staff could propose to transform their practice into an independent co-operative enterprise. It would be employee-owned and could involve other groups, including patients. The enterprise would be paid, in this case, via the NHS ‘tariff’ system which gives fixed levels of payment in return for the achievement of national standards, which pays providers for the various kinds of care each patient receives.

We expect this model to incentivise major improvements and efficiency savings in many areas of government activity, so any big savings leading to large surpluses on contracts will need to be shared with the taxpayer under the terms of the contract.

After their contract period, the co-operative enterprises will need to bid to renew the contract, so would be open to competitive pressure, like any other social enterprise working for government. While this will mean that good performance will be rewarded, the Government would not bail out enterprises if they fail. Like any contract that an enterprise enters into, the management and staff have to be responsible for any poor performance, not the taxpayer.

There are also many council services where staff could potentially take over and run them themselves, such as social work practices. Many councils also contract out their services to

social enterprises already, so we will consult on how councils could offer the same right for staff to bid to run council services as independent employee-owned co-ops.

### **Bringing in the best outside talent**

While a direct link to a government contract will overcome problems with start-up funding that many social enterprises experience, the other big issue is achieving longer term survivability and growth. This is where co-ops may need to bring in more dynamic skills and expertise to really progress and achieve larger scale.

We will give co-ops freedom to go into joint-ventures with outside experts, buying in managerial and operational expertise where necessary. This will further improve their ability to transform services for the better.

The need for the benefits this measure would bring was highlighted in the Innovation Unit's recent report on how public services can be reformed through staff takeovers. Not only did it highlight the need for external capital, but also management and growth support:

“It is clear that, as co-operatives grow, they face the challenge of how staff and/or citizens can hold a growing cadre of professional managers to account and effectively influence an increasingly complex set of operations.”[\[x\]](#)

Joint venture is the best way to grow co-ops without pumping in more state money, which in the present economic crisis we cannot afford to do.

### **Creating a new breed of public service entrepreneur**

Once running successfully, staff co-operatives will be in a strong position to do more than just the service they were initially contracted for. They will have complete freedom to bid to take over other areas of government activity, or merge with other staff cooperatives if they wish.

While staff will own their co-op, they will not automatically own any of the state's assets they continue to use, like buildings or land. But because there is significant embedded value in the public service infrastructure and estate, co-ops would be able to lease them for a fee. They would be free to decide not to use some if they wanted to reduce costs, or to go on to buy them from the state in due course.

There will of course be services where people would not want staff takeovers, or outsourcing of any kind, to occur, such as functions supporting our national security, armed forces or police.

### **Existing initiatives which show the approach works**

The NHS 'Right to Request' scheme, mentioned above, is the closest current example of staff taking ownership from the state to run public services. Despite the fact that the scheme has had little government support or promotion, there are some real emerging success stories. In South London, for example, '*Your Healthcare, Kingston*' has broken away from the NHS to manage 500 community nurses and over £20 million in contracts, despite initial opposition from the unions.[\[xi\]](#)

There is also a range of localised examples, especially in healthcare, where social enterprises with staff and community ownership have taken services out of council control and transformed them for the better. *Sandwell Community Caring Trust*, for example, is a registered charity that was set up in the 1990s to take control of cash-strapped care services from the Borough Council. It cut costs significantly while improving services, and has been running successfully ever since. It has carers and care services users on its board, as well as managers.[\[xii\]](#)

Other similar examples are *Local Care Direct*, which was set up in 2004 as a co-operative formed out of GP practice staff and patients to run out of hours GP services in Yorkshire; and *Principia*, which was a similar co-op set up in Rushcliffe in 2005.[\[xiii\]](#)

An example of how these models of social enterprise can start from a very small basis and successfully grow to take on more operations and larger scale is *Turning Point*, a now large social enterprise that provides a diverse portfolio of services, including employment schemes, rehabilitation services and housing. It started as a small operation that took control of local alcohol counselling services in Camberwell, South London, and diversified as it continued to succeed into other areas, like rehabilitation, disability support and prison services, until it reached its present scale of providing over 200 services across England and Wales from more than 240 different locations.[\[xiv\]](#)

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[\[i\]](#) Public Sector Productivity, Office for National Statistics, September 2009; <http://www.statistics.gov.uk/hub/labour-market/people-in-work/productivity>

[\[ii\]](#) Research by Roffey Park consulting, cited in Public Sector Executive, May 2008

[\[iii\]](#) See, e.g., 'How does 'shared capitalism' affect economic performance in the UK?; National Bureau of Economic Research, August 2008; Evaluation of Tax-Advantaged All-Employee Share Schemes, HM Revenue & Customs, 2008

[\[iv\]](#) See, e.g., Share Plan Survey, London School of Economics, September 2009; and Marmot, M (2004) 'The Status Syndrome', Times Books

[\[v\]](#) The Engagement Ethic, The Innovation Unit, December 2009

[\[vi\]](#) Social Enterprise: making a difference, Social Enterprise Coalition / Department of Health, November 2008

[\[vii\]](#) Bob Ricketts, Department of Health, in Social Enterprise, 28 April 2009

[\[viii\]](#) Frontline NHS staff to help transform patient care, Department of Health Press Release, 20 November 2009

[\[ix\]](#) Social Enterprise: making a difference, Social Enterprise Coalition / Department of Health, November 2008

[\[x\]](#) The Engagement Ethic, The Innovation Unit, December 2009, p.26

[\[xi\]](#) 'Union protests at Kingston NHS Your Healthcare plans' This is London, 4 December 2009

[\[xii\]](#) Healthy Business: a guide to social enterprise in health and social care, Social Enterprise Coalition, 2008

[\[xiii\]](#) Ibid

[\[xiv\]](#) Ibid