BAXENDALE

Department for Digital, Culture, Media & Sport

PARTNERSHIPS

For Better Public Services

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Acknowledgements

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Abbreviations

CIC	Community Interest Company
CYP	Children and Young People
DCMS	Department for Digital, Culture, Media & Sport
DYS	Devon's Youth Service
GIEU	Government Inclusive Economy Unit
HWP	Health and Wellbeing Partnership
JV	Joint Venture
LA	Local Authority
LLP	Limited Liability Partnership
MPSP	Mutuals Partnerships Support Programme
Mutuals	Public Service Mutuals
NHS	National Health Service
VCSE	Voluntary, community and social enterprises

Executive Summary

Public Service Mutuals (Mutuals) are an increasingly important strand of the public service reform agenda. The theoretical rationale behind Mutuals is strong.

- The model provides staff with an experience that closely resembles being an owner in their own organisations – in many instances it actually offers them a stake of some kind.
- A strong feeling of ownership results in greater employee engagement in service provision.
- Employee engagement is in turn associated with higher motivation and job satisfaction, as well as improved user responsiveness, delivery quality and customer satisfaction.

These advantages are much needed during a time when public services face staff shortages, funding constraints and Brexit uncertainty. In practice, as well as having key benefits, Mutuals face a number of systemic challenges that can be managed and mitigated against with the right support.

Forming strategic partnerships with other organisations can offer Mutuals new routes to delivering innovative and cost-effective solutions to the public.

KEY FINDINGS

CURRENT LANDSCAPE

- Mutuals have a substantial appetite to partner with other organisations. The majority of respondents (34 out of 54) already have experience of partnering. Looking ahead, 100% of respondents (54) said that they would consider forming partnerships to increase their chances of winning bids.
- Commissioning shifts towards larger and more integrated contracts (e.g. health), or towards more specialised requirements for the most vulnerable (e.g. youth services) mean that Mutuals feel an increasing need to partner. However, a push towards collaboration in an inherently competitive market space proves to be challenging, hampering Mutuals in optimising their partnerships.
- Whilst live tendering creates the impetus to have partnering conversations, Mutuals envision partnerships as routes to achieve long-term strategic growth and sustainability, rather than just to bid for single contracts.

FORMING PARTNERSHIPS

- Mutuals most commonly partner with voluntary, community and social enterprise (VCSE) sector organisations.
- The top three barriers to partnerships identified are:
    - complexity of legal arrangements;
    - incompatible values/culture;
    - insufficient capacity/time.
- For Mutuals with experience in partnering, the most common model used is a form of contractual arrangements (mainly subcontracting) with 59% of respondents having had experience of it.
- Forming informal arrangements was fairly common too (51%). Only 8% had experience of bidding for a contract through a new legal entity.

WORKING IN PARTNERSHIP

- Three main underlying challenges faced by Mutuals working in partnership are:
    - misalignment of organisational aims and values;
    - different ways of working;
    - capacity constraints.
- Experience of forming and working in partnership was perceived to bring long-term benefits to Mutuals that extend beyond bidding for a specific contract with a partner(s), enhancing their ability to thrive in the market and to generate new revenue streams not reliant on public sector commissioners.

COMMISSIONERS' PERSPECTIVE

- Commissioners' main priority is achieving positive outcomes for the local population regardless of the legal form of the providers. They do not actively distinguish between Mutuals and other voluntary and social enterprise (VCSE) sector organisations.
- Commissioners are interested in working with VCSE organisations though their appetite can be constrained by budget cuts and procurement rules.
- Commissioners perceive partnerships between smaller, local providers as key to delivering the outcomes they strive to achieve. However, they emphasised that partnerships between the commissioner and the provider are also an essential part of success.

POTENTIAL

- There is a strong case for supporting Mutuals to form partnerships. This is due to the following findings:
    - Benefits from partnering are long-term and extend beyond simply bidding for single contracts;
    - Mutuals have a potential to deliver better outcomes for public services;
    - Nation-wide shifts in the commissioning context require Mutuals to partner;
    - Mutuals express a substantial appetite to partner;
    - Public service commissioners want to work with consortia of small, local providers; and
    - Specialist support can unlock Mutuals' potential to form successful partnerships.

SUPPORT NEEDS

- Mutuals expressed a need for holistic support packages that combine multiple business needs.
- Commercial and legal support were found to be the top support needs expressed by our participants. This was followed closely by support with risk/benefits analysis and financial modelling.
- Top barriers to partnering concern legal complexities, cultural misalignments, and insufficient capacity to form partnerships. All three can be overcome through appropriate specialist support like help with construction of more formal and strategic vehicles, partnering model design, or development of investment cases.

CONCLUSION SUMMARY & RECOMMENDATIONS

Central government has invested significantly in finding more effective ways to deliver public services, and the creation of Mutuals has been integral to this. To maximise return on investment, it is crucial that Mutuals build capacity and capabilities to form and work in partnership. It is becoming ever more important for Mutuals to partner when they bid.

To achieve long-term sustainability for Mutuals, we recommend that the specialist partnering support offered through the Mutuals Partnership Support Programme is not tied to procurement exercises, but supports a longer term strategic view that improves their ability to grow, diversify incomes and share best practice which ultimately benefits the communities the Mutuals serve. Then, the programme can maximise its potential to achieve the government's ultimate objective of better outcomes of public services.

Introduction

The Government Inclusive Economy Unit (GIEU) was formed in October 2016 within the Department for Digital, Culture, Media, & Sport (DCMS). It leads the government's efforts to support the growth of Public Service Mutuals in England.

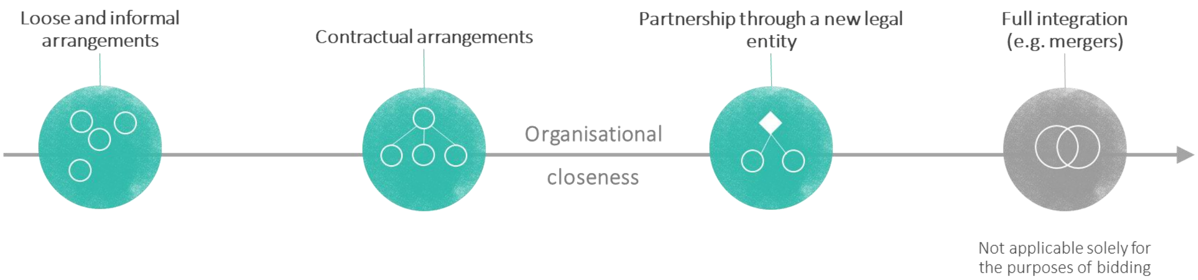
DCMS's definition of a Public Service Mutual is an organisation which:

(1) *"has left the public sector (also known as 'spinning out');*
(2) *continues to deliver public services and aims to have a positive social impact; and*
(3) *has a significant degree of staff influence or control in the way it is run"* (DCMS, 2018).

Seeing public service commissioning shift towards contracting across larger geographic regions and service remits, the GIEU launched the Mutuals Partnerships Support Programme (MPSP) – a pilot project exploring the potential for Mutuals to form partnerships with other organisations to improve their ability to sustain and compete effectively in the future, drawing on collective scale and expertise.

For the purposes of this report, 'partnerships' are understood broadly as inter-organisational collaborative relationships that allow partners to achieve outcomes in service delivery. Those partnerships can include informal consortia, subcontracting arrangements, forming a new legal entity or any formal or informal arrangements that define a collaborative relationship between Mutuals and any other organisations (including private providers).

Figure 1: Partnership models on the spectrum of organizational closeness adapted from (Rees, Mullins, & Bovaird, 2012)



The aim of this research paper is to assess the potential for Mutuals to form partnerships with other organisations to bid for contracts, enhancing their ability to sustain and compete for work. The findings will inform the roll-out of MPSP and contribute to a wider understanding of the partnering landscape for Mutuals.

The report broadly covers:

- The current partnering landscape for Mutuals in England;
- The experience of and potential for partnerships; and
- Support required by Mutuals to form such partnerships.

Literature review

Evolution of the policy landscape

Although the roots of the mutual or co-operative movement in England can be tracked back to medieval guilds, mutualisation only figured high up on the political agenda relatively recently. Since the 1990s, a combination of government enthusiasm for mixed models of public service delivery, and more recently a growing understanding of the importance of social impact as well as rising financial pressures, have brought on a number of policy drivers and legislative changes. Those initiatives have intentionally supported the development and growth of a wider social enterprise public service delivery sector of which Mutuals are a key part.

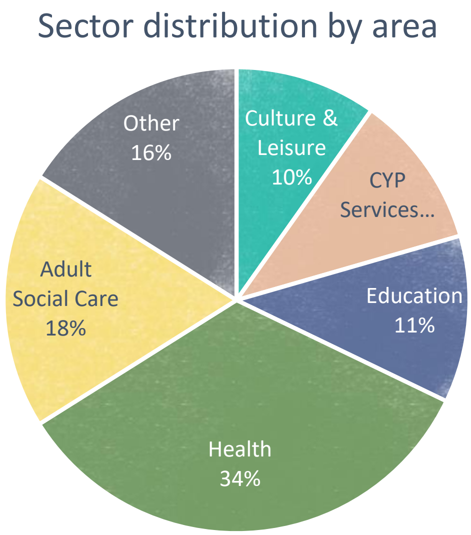
In particular, the following policy changes and initiatives contributed to the growth of Mutuals (Hazenberg, Hall, & Ogden-Newton, 2013):

- ***2008 Right to Request Programme:*** this gave primary care trust staff the opportunity to develop their own organisations to deliver healthcare services and resulted in the creation of the first wave of Mutuals.
- ***2010 Right to Provide Programme:*** replaced the former, allowing for a greater scope of public sector spin-outs to emerge beyond primary care trusts.
- ***Mutuals Support Programme and Mutuals Information Service:*** provided support to aspiring and new Mutuals through the Cabinet Office and helped broaden the landscape for Mutuals outside of health.
- ***Community Right to Challenge*** *(included in the Localism Act of 2011):* required local authorities to consider an expression of interest submitted by a voluntary or community organisation in relation to providing a public service.
- ***2012 Public Services (Social Value) Act:*** requires public services commissioners to consider wider social, economic and environmental benefits.
- ***2016 The Government Inclusive Economy Unit (GIEU):*** formed to lead the government's efforts to strengthen the social investment market and support mission-led businesses, including the Mutuals sector in England.

The growth in number of public service spin outs has been slower than initially envisaged (Hazenberg et al., 2013). Nevertheless, existing Mutuals exhibit impressive growth – on average growing by over 50% since launch (Social Enterprise UK, 2018). Currently, the DCMS identifies about 120 Mutuals in England. The sector is diverse in respect to service areas, legal forms, size, and maturity of the organisations.

Just over half of all Mutuals operate in health and social care. Other sizeable service areas include culture and leisure, Children and Young People's (CYP) services, and education. The 'other' category is very diverse: it includes Mutuals offering probation services, employment advice, consultancy and building control.

Figure 2: *Sector distribution of the Mutuals sector in England*



In 2011, there was a surge in the number of new spin-outs after the Right to Provide guidance was introduced to sit alongside the existing Right to Request programme.

Mutuals vary significantly in terms of size. The smallest Mutual employs only 1 person; the largest over 1,500. Turnover ranges from £200k to over £100m.

The potential of Public Service Mutuals

The effectiveness of Mutuals in public service delivery is a relatively new research area given how long they have been around and thus the findings are limited, particularly in relation to service-user outcomes. Nevertheless, early qualitative research provides grounds to believe that Mutuals have real potential to deliver innovative, cost-effective alternatives to public service delivery (CIPFA, 2017b; Hazenberg et al., 2013; Le Grand & Mutuals Task Force, 2012).

The theoretical rationale for Mutuals is strong. Based on providing staff with an experience that resembles as closely as possible that of being an owner in their own organisations, and in many instances actually offers them a stake of some kind, the model results in greater employee engagement in service provision.

Employee engagement is in turn associated with higher motivation and job satisfaction, as well as improved user responsiveness, delivery quality and customer satisfaction (Chartered Institute of Personnel and Development, 2012; CIPFA, 2017a; Ham, 2015; Le Grand & Mutuals Task Force, 2012; Social Enterprise London, 2010). Such advantages are much-needed in times of staff shortages, funding constraints and Brexit uncertainty. The cherry on top is that independence from a parent organisation is expected to cut unnecessary red tape and bring greater efficiency.

In practice, there are also some serious risks. Mutualisation is a complex transition that often requires business planning, financial modelling, legal support and changes in human resources. New Mutuals can struggle to survive in competitive markets alongside long established incumbents (Social Enterprise UK, 2012). Existing Mutuals face difficulties balancing the need to sustain core services whilst diversifying and maintaining their competitive edge (Brown & Watt, 2013).

There are also sector-wide concerns that mutualisation might lead to more fragmented services and actually create new layers of bureaucracy. Even though Mutuals and other VCSE organisations are often perceived as ‘the ideal’ provider, it has been shown that the structure of public procurement favours big organisations with sizeable balance sheets, often forcing Mutuals out of the market (Social Enterprise UK, 2012). VCSE organisations can struggle to deliver competitively priced bids due to their small reserves and limited infrastructure. There is a growing concern that the pressures of budget cuts on public service commissioners will result in cost savings being a significant consideration in procurement, and thus limit the potential of staff-led Mutuals to create better outcomes and generate positive social value (Bagwell, 2015; Hazenberg et al., 2013; NCVO, 2014).

Commissioning context

The commissioning landscape for public services in the UK has seen a number of shifts in the past decade which has increased the importance of partnerships amongst public service providers.

Economies of Scale: A shift towards regional and national commissioning and large-scale contracts to achieve economies of scale and reduce the cost of contract management for commissioners while securing equity and standardisation in the provision in commissioning of services.

Contract sizes have increased over the past 5 years; coupled with financial requirements (e.g. turnover of at least £20 million) for the organisations wishing to deliver the contracts (NCVO, 2014), this shift made it essential for smaller providers to bid for contracts in partnership with other organisations.

Integration: A shift towards integrated services and joint working across different services that traditionally have been commissioned separately. Joint working for public service delivery has been central to public sector reform in the UK over the last two decades (Crowe, Gash, & Kippin, 2014). This recognises the interdependency between services and a growing belief that partnerships can improve outcomes for service users whilst bringing cost savings (Social Enterprise UK, 2012a).

Place- and asset-based approaches: A shift towards identifying localities as the common basis by which services are commissioned. A move to Mayor and devolved systems are also starting to influence a place-based approach to commissioning across cities. These approaches identify and value local, smaller, community-based organisations in the provision of public services (Myers, 2017). The key changes to the commissioning of health and care services centre around delegating responsibilities to local, rather than national organisations and placing more emphasis on joint-working between a range of providers supporting locality (Wenzel, 2017).

Whether it be to achieve regional and/or national scale or the need for integration and place-based approaches to commissioning, those trends are forcing smaller and/or specialist providers to partner to meet the commissioners' requirements for scale and service expertise. Mutuals are usually highly specialised with a local offer targeted and focused on a specific set of user needs, which limits their ability to bid for large-scale contracts. Additionally, Mutuals tend to be small with limited infrastructure and small balance sheets that restrict their access to the capital needed to deliver larger contracts.

With these points in mind, there is a strong case to protect and support the relatively young Mutuals in partnering, and thus help them realise their full potential to contribute meaningfully to better quality public services.

Methodology and sample

A mixed-method approach to data collection was used combining:

- a literature review on Mutuals' understanding of the partnering landscape to inform survey design;
- telephone and online survey to assess appetite and experience of partnering;
- telephone interviews with 12 individuals in leadership positions at Mutuals and 5 commissioners;
- analysis of surveys (mainly quantitative) and interviews (qualitative).

Sectors

For the purposes of this report, we have divided the Mutuals into six sectors. However, it should be noted that it is only an approximate grouping, as numerous Mutuals operate across multiple sectors.

The following list shows examples of service areas included in the wider service area categories:

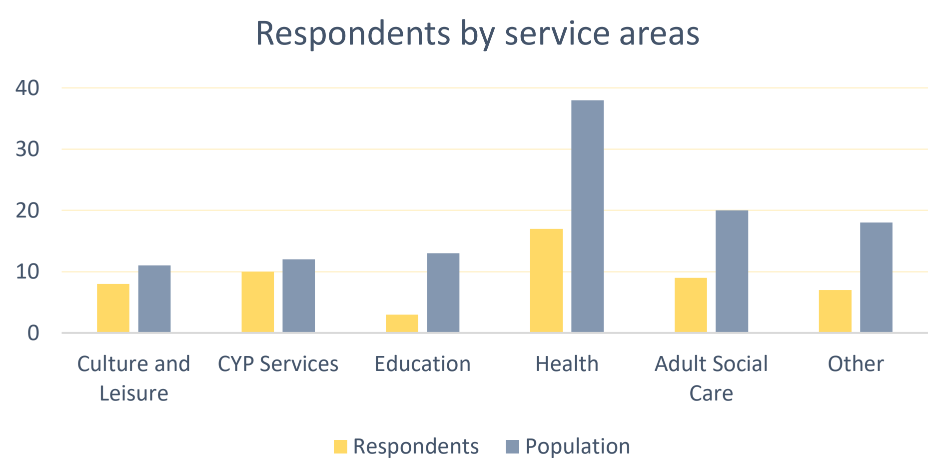
Online survey

This research was run concurrently to a study on the state of the Mutual sector conducted by SEUK. To avoid duplication and maximise the response rate, the sampling strategy of the two research projects was combined.

75 organisations participated in a survey coordinated by SEUK and were then asked to fill out an online survey about partnering. 54 valid responses were collected resulting in a 72% response rate, or 48% of all known Mutuals.

The resulting sample is diverse with representatives from all sectors listed in the figures below.

Figure 2: *Online survey respondents by service are versus the population of Mutuals in England*



Even though the response rate was relatively high, the diversity of the sector implies that a sample of 55 responses does not guarantee statistical significance of the findings. Thus, the reader should note that the findings cannot be confidently generalised to a wider population.

Telephone interviews

Public Service Mutuals

Following the online questionnaire, selected respondents were invited to participate in a semi-structured interview. Interviewees were sampled purposefully to ensure diversity in terms of sector, size, and partnering experience.

Out of the total of 12 interviewees, the service area distribution was as follows:

- 4 Health
- 4 Other
- 2 CYP Services
- 1 Social Care
- 1 Education

No organisation operating within Culture and Leisure agreed to participate in the interviews.

Commissioners

Commissioners' views on the partnering landscape for Mutuals were also captured.

Five individuals representing different aspects of commissioning participated. Collectively their expertise covered culture, CYP services, health, and adult social care. The reader should note that this research did not include perspectives of commissioners who had not experienced working with Mutuals.

Consent

All participants provided informed consent to participate in this research. To protect confidentiality, the interviewee responses have been anonymised. For any quotes or case studies that are not anonymised, participants were contacted separately to seek explicit consent for their organisation's name to be displayed.

Current landscape

Appetite for partnering

Participants exhibited relative confidence about their ability to secure contracts alone in the near future. When asked to rate their confidence levels on their organisation's capability to secure contracts on its own over the next 5 years, only one participant indicated low confidence. On a scale of 1 to 5 (where 1 is 'No confidence', and 5 is 'Very confident'), the average score across all sectors was 3.88 indicating that Mutuals feel quite confident about bidding for contracts alone.

Despite a relatively high level of confidence in their ability to secure new work independently, there is a positive approach towards partnering amongst Mutuals.

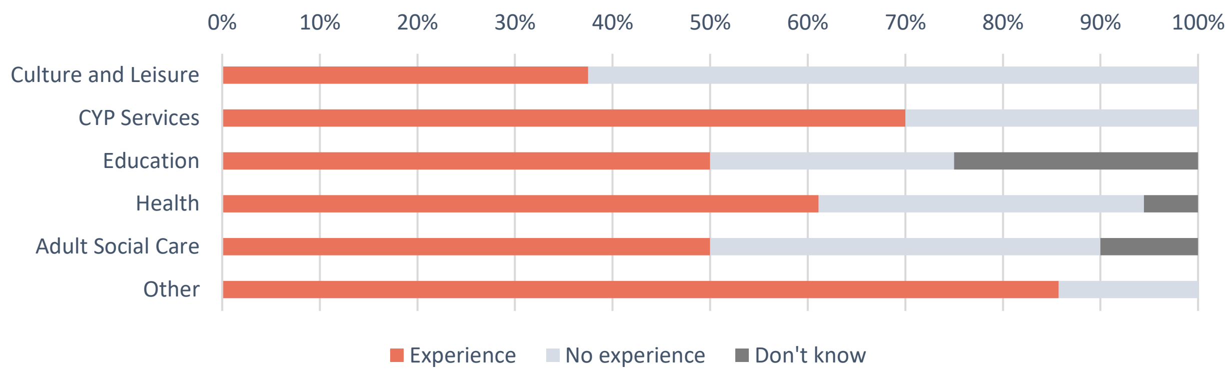
100% (54) of the respondents said that they would consider forming partnerships to increase their chances of winning bids (with 65% – *definitely*, and 35% – *might*). Many see partnerships as an inevitable route to grow sustainably:

> *"I think the role of partnerships is huge – it's absolutely the only way organisations can grow in the future."*

> *"We would rarely look at a big contract without thinking of bringing in partners. It's usually the first thing we think about."*

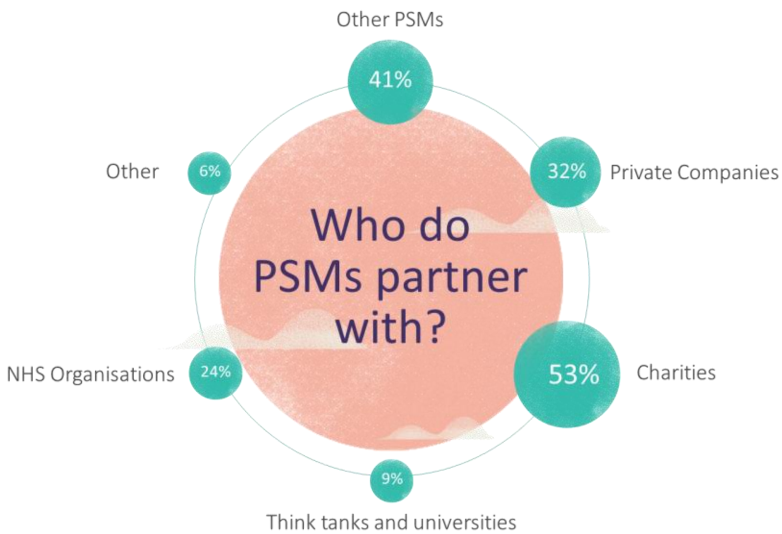
The majority (34 out of 54) of respondents already had experience of bidding for contracts in partnership with other organisations. Ignoring the diverse 'Other' category, Health, and CYP Services are sectors where forming partnerships to secure work is the most common amongst survey participants. Partnerships are the least popular in Culture and Leisure (with only 38% respondents having experience in partnering).

Figure 3: *Respondents' experience of bidding for contracts with other organisations by service area*



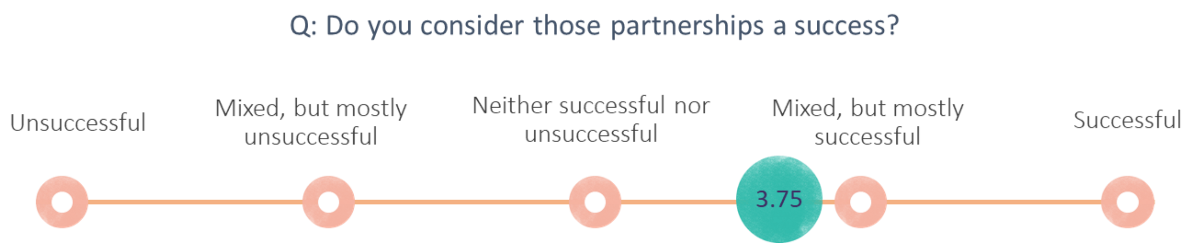
Our analysis found that the most common bid partners for Mutuals with experience of partnering were charities (53%) and other Mutuals (41%). A significant number had experience of partnering with private companies and NHS organisations (e.g. NHS Foundation Trusts). Mutuals have also mentioned their experience in partnering with Local Authorities. Even though this experience does not directly relate to bidding for contracts, it is worth highlighting, as it seems to be a common approach to securing work other than through a procurement process.

Figure 4: *Proportion of respondents with experience of partnering by different types of partners*



The respondents perceived the success of partnerships formed to be mixed, but mostly successful with an overall score of 3.75 on a scale from 1 to 5 (where 1 is 'Unsuccessful' and 5 is 'Successful').

Figure 5: *Respondents' perception of the relative success of partnerships formed*



For those who never partnered to secure a contract, the most common reason was that it was never necessary or that a partnering opportunity had not presented itself yet. Other reasons included (in descending order of popularity):

- Lack of legal expertise
- Lack of time to arrange and support such partnership
- Risks too high compared to benefits
- Costs associated with forming the partnership are too high
- Not aware of any potential partners/partners not interested

Collaboration vs. competition

A push towards collaboration in an inherently competitive market space proves to be challenging. On one hand, a top-down push for joint-working requires Mutuals to consider forming partnerships. On the other hand, the procurement processes and short timeframes to bid for the contracts are designed to encourage competition and innovation in the market and often constitute a systemic barrier to collaboration.

One example of how procurement processes inhibit collaboration is short bidding timescales, sometimes as short as one month between the ITT and initial submission deadlines (NCVO, 2014). Mutuals reported that short time frames between invitation to tender and bid submission deadline make it nearly impossible for small providers to develop meaningful partnerships.

Another consequence of the collaboration-competition dichotomy is the question of intellectual property. Mutuals that participated in this research expressed concern over sharing best practice with partners, especially if the partnership was formed solely for the purposes of a single short-term contract. Whilst most Mutuals were keen to share best practice and learn from each other, they were also apprehensive about sharing their ideas with partners who might become their competitors in another bid. This raises serious concerns over how delivering short-term contracts in partnership impacts the quality of public services. If partnerships are not based on genuine collaboration, but rather take a one-off transactional form that discourages sharing best practice – could they result in negative outcomes for service users?

"The whole way the commissioning is set up - it naturally puts likeminded organisations against each other"

- CYP Services PSM

Additionally, commissioners' openness to joint-working does not necessarily translate to openness to work with consortia of small, local and third sector providers. In health, more and more Clinical Commissioning Groups (CCGs) have been observed working together to commission services and deliver economies of scale. The sector is dominated by NHS providers and a handful of big private organisations. Despite the general enthusiasm for partnerships, our respondents in the health and social care sectors expressed concern about not seeing much movement towards awarding contracts to consortia of small third sector, non-NHS organisations:

> *"The NHS commissioners are just looking internally at NHS providers. As soon as you put an idea of something new, they get all excited by it, but then they go 'we can't do that because of the procurement rules'."*

> *"The current procurement regulations, processes and commissioners' thinking lend itself against bringing people together. You will see many local authority commissioners saying 'We champion working together' but when it comes down to it, they are very risk averse and will probably stick to what they know."*

Forming partnerships

Motivators

Based on our analysis, it is clear that Mutuals are aware of and feel the effects of the growing pressure to partner from commissioners. Some respondents have explicitly identified it as a primary reason to form partnerships:

> *"I don't think we are in a position where we could think of partnerships to purely grow. Nevertheless, nearly all the bids that we are involved in now involve partnerships. Most of our partnerships are a result of this pressure from commissioners."*

However, another important finding from our research is that macro-commissioning [1] is not the sole motivator for Mutuals to form partnerships. In fact, the majority of Mutuals preferred to think about partnerships in the context of long-term strategic implications, rather than for the purpose of a single contract. Other motivators to partner listed by Mutuals included:

1. Sharing infrastructure (e.g. back office functions)
2. Building capacity (e.g. more staff to cover in case of maternity leave or sickness)
3. Partnering with Local Authority to secure work in other ways than through procurement
4. Diversification of incomes streams beyond public sector commissioned contracts to protect financial sustainability

[1] Macro-commissioning - the process of meeting needs at a strategic level for whole groups of service users and/or whole populations

Barriers

When asked to select three key barriers to forming partnerships, the one identified the most related to the complexity of legal arrangements (selected by 59% of respondents). This was followed by challenges around working with partners who have incompatible cultures or values, and the extra time it takes to work on a partnership. It is important to raise a question of the extent to which these barriers are real versus perceived.

Key risks

When considering or forming a partnership, Mutuals highlighted financial and reputational risks, as well as a risk of costs outweighing benefits.

- **Financial risk**
  Financial implications were one of the most frequently mentioned concerns related to forming partnerships. In particular, how are project risks distributed and who will be responsible for what share of financial consequences? Is the risk/reward balance right for each partner?

- **Reputational risk**
  Entering a partnership with other organisations carries a risk of potential reputational damage in case of partners' delivery failure. It is therefore important to consider how resilient partners are (both in isolation and as a partnership) to unexpected shocks to the supply chain.

  The impact on organisational identity has also been a key consideration. For instance, when forming partnerships with private organisations, Mutuals were concerned that their social value might be compromised or perceived as compromised.

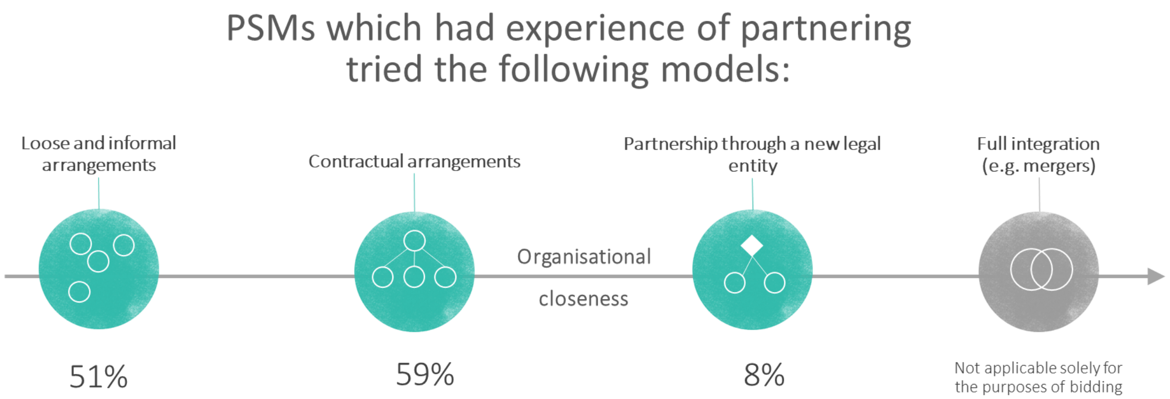
> *"We had a negative experience with partnering – it was very hard work, partnership was complex and expensive, and our commissioners don't understand partnerships."*
>
> – Community health PSM

- **The costs outweighing the benefits**
  Partnerships require commitment of time, energy and resources. Thus, there exists an overarching concern that the costs put into establishing a partnership will outweigh the benefits. This was a particular concern for those that have not established strong relationships with their partners yet and thus anticipate unknown risks associated with the chosen partner.

Range of options available

There are a number of legal forms that partnerships can take and the choice of an appropriate one will depend on a number of factors ranging from commissioner preferences to the relative size and specialism of the partners. Rees, Mullins, & Bovaird (2012) suggest thinking about the range of options available as a spectrum of organisational closeness.

Figure 6: *Proportion of respondents with experience of partnering by different legal forms*



On one side of the spectrum organisations can form informal consortia where relationships between members are loose, shaped by a memorandum of understanding rather than a contract. This is a relatively quick way of forming a partnership that allows partners to maintain full autonomy and work jointly on some activities. Informal arrangements were a fairly common approach – 51% (20 respondents).

Next on the spectrum are contractual arrangements – the most common arrangements chosen by Mutuals (usually in a form of a subcontractor arrangement). It should be highlighted that this category can range from a simple subcontractor arrangement to complex multi-provider models or alliances.

Another way of framing the partnership is through establishing a new legal entity. We found that only 8% of Mutuals (3 respondents) had experience of bidding for a contract through a new legal entity. This approach requires significantly more preparation and legal support than the previous two. However, it also brings benefits that extend beyond delivering a single contract, discussed later in the report.

On the far right of the spectrum partners achieve full integration through merging. This approach will not be discussed here in detail as it is not applicable to forming partnerships for the purposes of securing contracts.

The next section of this chapter lists examples of partnership models and their relative merits. We start with a description of example models of informal arrangements, contractual arrangements, and new legal entities. We then outline key considerations for choosing a model. The reader should note that the list is not exhaustive and should only be used as guidance.

Loose and informal arrangements

Model	Advantages	Disadvantages
Informal arrangement Providers enter into individual contracts with the commissioner and agree to collaborate. This might involve exchanging information, cross-referrals, joint training, and/or sharing resources to increase purchasing power. Informal arrangements may or may not involve establishing a steering or networking group which will provide a strategic direction for the partnership. Informal partnerships are often regulated by an agreement like a memorandum of understanding (MOU) which is not legally binding but defines how organisations will work together.	▪ Quick to establish, as no formal procedures are involved ▪ Minimum cost to establishing a partnership ▪ Flexibility – can be easily adapted to any change in circumstances ▪ Members retain full autonomy	▪ Can be problematic if things go wrong as there is no formal way of achieving a consensus. ▪ Not clear where liability sits. ▪ Although this arrangement may be sufficient for informal collaboration, a more formal arrangement is needed for the delivery of a contract.

Contractual arrangements

Example model	Advantages	Disadvantages
Sub-contractor / Associate arrangement The prime contractor enters into the main contract. Each sub-contractor/associate enters into a sub-contract with the prime contractor. This model could include social franchising where appropriate.	▪ Simplicity ▪ Familiarity – most parties will have used sub-contractor relationships previously ▪ Flexibility – If need to change sub-contractors in the future ▪ Does not involve the creation of any new entities and the formalities around this	▪ Prime is liable for all sub-contractors (although contracts and insurance can mitigate this). ▪ Sub-contractors can have less control.
Contractual Joint Venture (JV) The two (or more) parties agree to co-operate on the basis of an agreed contract. This will usually record the resources that each party will contribute to the venture, how reward will be shared, contracting protocols with third parties and communication and project management protocols.	▪ Flexibility – can involve whatever provisions the parties wish. ▪ Does not involve the creation of any new entities and the formalities around this. ▪ Particularly useful where there is no head contact so no need for a lead partner.	▪ Can be unclear who will contract with the commissioner – who may prefer a single contractor. ▪ Can be hard to strike the balance of covering all the relevant issues while avoiding unnecessary complexity.
Alliance A form of Contractual Joint Venture usually used in the Health sector. A group of providers who agreed to adhere to common principles and ways of working each separately enter into a single arrangement with a commissioner to deliver services. The commissioner(s) and all providers within the alliance share risk and responsibility outcomes and this is provided for in the contracts. All organisations are equal partners and rely on the alliance governance arrangements rather than sub-contractual arrangements.	▪ Each member of the Alliance will have their own contractual relationship with the commissioner to members of the alliance are not responsible for each other. ▪ A clear set of principles and way of working.	▪ If the commissioner asks for joint and several liability, the risk for each supplier may increase because the commissioner is asking for each part to be responsible for the others. This undermines the essential advantage of the alliance.

Case Study: Subcontracting arrangement

Lessons learnt from an unsuccessful bid

About DYS Space Ltd

DYS Space Ltd ("Space") delivers youth services across Devon. It spun out of Devon County Council in February 2017 to become a Company Limited by Guarantee and a registered charity. Space recently partnered with two other organisations to bid for a new contract. Ultimately the bid was unsuccessful, with the consortium losing out to the incumbent provider. Nevertheless, Space reports many benefits resulting from the partnering process.

Setting up the partnership

Space was approached by two organisations interested in collaborating to bid for new work. Advisors facilitated initial workshops to set aspirations across all partners and identify some red lines.

> *"It was facilitated in a way that it was safe to challenge, safe to ask questions, safe to test assumptions and very quickly we moved to a formal partnership agreement."*

The group decided that a lead provider model with subcontracting arrangements was the most appropriate in this case. Space was one of the subcontractors. To prepare for the procurement process, the team used skills from across the group. One partner had deep analytical ability and contributed by modelling costs, while Space offered its bid writing expertise to capture the service model.

Challenges

As the partners did not know each other well, they deliberately focused on working on trust by being brutally honest with each other and putting all vulnerabilities on the table in the first instance. One of the biggest challenges for the partnership was language – getting everyone's terminology right. To overcome this challenge, they strived to create an environment where no question is 'stupid' or 'too basic'. Clear communication and clear ways of resolving issues facilitated the process.

Lessons learnt

Although Space and its partners lost the bid, the relationships formed, and lessons learnt were considered invaluable. Strategically, the exercise benefitted Space as it showed commissioners that they are an organisation that wants to collaborate with others. The experience has also benefitted their service users. Space's partners are now co-located in some of their centres which makes young people much more likely to access appropriate services in a timely manner.

> *"The fact that we haven't won that bid doesn't mean that we're parking the relationship. The process is still ongoing. We're looking at what learning we can get out of it and how to be more effective in the future."*

Since the tender, Space and one of the other original partners have been co-commissioned to run a pilot to look at new ways of managing young people in care's personalised budgets.

> *"We were able to jointly respond quickly as we'd already worked through the mechanics of partnership agreements and trust had already been established."*

Partnership working via a new legal entity

Example model	Advantages	Disadvantages
Company Limited by Shares A company limited by shares is a form of a JV where partners own and control a new company. Liability for shareholders is limited to their share capital. The new company can enter into contracts in its own right. Company is liable to pay corporation tax on surpluses /profits prior to distribution to shareholders	▪ Limited liability (unless shareholders provide parent company guarantees). ▪ Clear who is contracting with the commissioner. ▪ Can suit JVs where some or all of the surplus / profit is to be retained in the JV (depending on the nature of the JV and the JV owners).	▪ Administration for new entity (accounts, tax returns, insurance etc.). ▪ Winding up the JV likely to involve more steps.
Community Interest Company Limited company (which can be a company limited by shares or guarantee) with a "Community Interest" and an asset lock that limits the use of the company's assets to the Community Interest and caps dividends at 35% of distributable profits. Likely only to be used where the commissioner requires / favours a CIC and / or there is a desire to establish a stand-alone entity that can continue benefiting the Community Interest beyond the immediate contract / services.	▪ Limited liability (unless members/shareholders provide parent company guarantees). ▪ Clear who is contracting with the commissioner.	▪ Administration for new entity (accounts, tax returns, insurance etc.). ▪ Winding up the JV likely to involve more steps (surplus assets can only be distributed for the benefit of the Community Interest or to another asset locked body with similar objectives). ▪ Distribution of profits / surpluses to owners by way of dividend is limited to 35% of distributable profits (although fees can be paid to JV partners for services delivered to the CIC)
Limited Liability Partnership A partnership with limited liability. Liability for most members is limited to their equity / capital accounts. The LLP can enter into contracts in its own right. All surpluses / profits are taxed as if they were income received by the owners, whether or not they are paid to the owners. Particularly useful for charities.	▪ Limited liability (unless partners provide parent company guarantees). ▪ Clear who is contracting with the commissioner. ▪ Can suit JVs where all of the surplus / profit is to be distributed immediately to the owners.	▪ Administration for new entity (accounts, insurance etc.). ▪ If parent company guarantee is in place, may be of limited benefit to JV partners. ▪ Winding up the JV likely to involve more steps.

Case Study: Limited Liability Partnership

Dormant partnership with huge potential

About the Health and Wellbeing Partnership LLP

Established in 2015, the Health and Wellbeing Partnership LLP (HWP) is formed of eight social enterprises with a collective turnover of circa £33m. The partners have complementary expertise in health, social care, education, and housing services and are looking to both compete for large service pathway contracts and attract investment.

The beginnings

> *"At the beginning all chief executives of all spin-outs used to meet up in London as a support network. Lots and lots of friendships and relationships were built as a part of that journey. Those friendship started to spark ideas. All of it emerged from there*."

As individual organisations they didn't have sufficient capacity and financial clout to bid for large health and social care contracts. They agreed to join together in a LLP – a model which protects the autonomy of the members whilst allowing them to benefit from the collective organisation ballast.

HWP was formed with assistance of business consultancy Mutual Ventures.

Success so far

> *"One of the major benefits is recognising where your skills are and aren't and exploiting each other's strengths. We got a lot of likeminded organisations together with such a variety of skills and abilities to bring to the table."*

HWP has successfully secured a place on a limited framework of suppliers for health and wellbeing commissioning in the Greater Manchester area. Positive relationships have been built with several selected social investors who are keen to support the LLP as a model.

Concerns

Despite the enthusiasm and an overwhelming support from the sector, HWP have not yet had a chance to bid for and deliver a contract jointly, due to lack of appropriate opportunity to bid for.

> *"Everyone we spoke to said "The HWP is brilliant. It's potentially the future of mutuals being able to get together; third sector having the capacity to bid for huge contracts that only big private providers would be able to go for"*
> *(…)*
> *The HWP is still in existence but it is dormant at the moment due to lack of work to bid for. It's about finding the right thing at the right time to do. This is blocking us at the moment."*

Key considerations for choosing a legal arrangement for the partnerships:

- Will the commissioner accept this arrangement?
- What should be formalised/made contractual and what should be left informal?
- What assets/services are to be contributed to the partnership by the partners?
- How should risk and reward be shared between the parties?
- What will the commercial arrangements between the parties look like?
- How will you refer to the collaboration in publicity material? (e.g. name of collaboration, use and order of logos)
- How to resolve disagreements?
- How can the termination of the contract happen and what are the implications?

Key steps in forming and operating in a successful partnership

Regardless of the legal form, there are a number key steps that need to be taken to maximise the chances of a successful partnership. The following list is adapted from an evidence review on effective partnership processes in UK public services by Cook (2015).

Resources for partnership

- Ensure sufficient staff, adequate funding, and effective IT systems are in place for the partnership.

Partnership activities

- Establish what each organisation brings and wants to gain from working in a partnership.
- Ensure that every member is fully on board and that your values and aims align.
- Clarify roles, responsibilities and lines of accountability.
- Think about information sharing and confidentiality – you may want to sign a non-disclosure agreement with your partners.

Partnership engagement and stakeholder awareness

- Ensure that key staff working at operational and strategic levels are included.
- Ensure that the need for the partnership is understood by the key stakeholders.

Knowledge, attitudes, skills and aspirations

- Ensure that enough time is allocated to developing a trusting, collaborative relationship between partners.
- Ensure that all partners understand and respect each other's ways of working and procedures.
- Ensure that partners feel that relationships are mutually beneficial.

Practices and behaviours

- Think about establishing a steering group with representatives from each organisation.
- Agree on policies and procedures that every member will need to adhere to.
- Ensure regular and effective communication and information sharing between partners at strategic as well as operational levels.
- Establish appropriate ways of conflict resolution.

When asked to select top three success factors, ‘softer’ features related to trust and vision were selected by the majority of respondents. Sound policies, procedures, and management systems were regarded as critical by fewer respondents.

1. Trust and valuing partners
2. Shared vision
3. Clear communication

Working in partnership

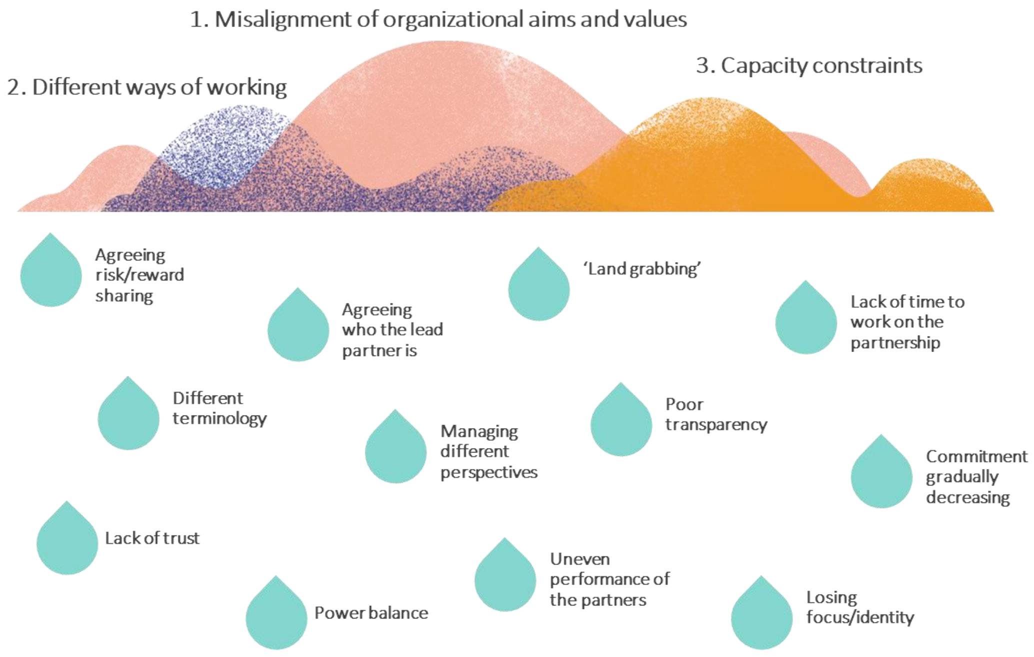
Challenges

Once a decision to go forward in forming a partnership, Mutuals, like any other organisations, face a number of operational challenges. The challenges highlighted by our respondents varied greatly. In order to conceptualise these challenges, it is helpful to think about them in two categories: primary and secondary challenges. Our analysis revealed three main primary challenges:

(1) Misalignment of organisational aims and values
(2) Different ways of working
(3) Capacity constraints

The secondary challenges can often be traced back to these three primary problems.

Figure 7: Primary and secondary challenges of forming and working in partnerships experienced by the respondents



1. **Misalignment of organisational aims and values**
   Differing professional agendas, end goals, and values can generate practical challenges that may impact on nearly all practical aspects of a partnership: negotiating who the lead provider is, agreeing risk and reward sharing, financial obligations, and poor performance.

   > *"The energy required to develop and maintain the relationships with our partners was a challenge, especially in cases where partners had interests that did not always fully align with ours."*

2. **Different ways of working**
   A substantial number of challenges were a direct consequence of differences at an operational level: from triage systems and terminology used, to governance and decision-making processes.

   > *"The biggest one was them not doing things as quickly as we wanted to. As a small, agile organisation we can make decisions really quickly, but our partners had to go to three board meetings to agree on one thing."*

   "You just need to communicate like mad and it's exhausting, but you need to keep on top of it."

   – Education PSM

   To avoid unnecessary conflicts resulting from operational challenges Mutuals found frequent communication and sound project management practices helpful.

3. **Capacity constraints**
   Despite good intentions and relationships, finding the capacity to work on the partnership can be difficult. Forming partnerships requires the commitment of time, money and resources often on top of the day-to-day activities. As Mutuals already operate under constrained budgets, capacity constraints were found to be a common source of challenges related to staff commitment, performance, and power balance.

Benefits

Where Mutuals have attempted to partner for contracts, they felt the experience was largely successful for the specific task of securing new contracts. On average, partnering with other organisations improved Mutuals' ability to:

- Secure different contracts (80% agree)
- Secure bigger contracts (65% agree)
- Secure more contracts (50% agree)

However, the research shows that Mutuals recognise that working in partnership offers benefits far beyond the purpose of bidding for contracts. The participants perceived the conceptual distinction between partnerships formed to bid for contracts and partnerships in general as artificial. The most commonly mentioned benefits of forming and working in partnership are:

- **Ability to access new markets and diversify incomes**
  Partnerships can often open up new revenue generating opportunities in markets where public sector commissioners are not the only buyers of services.

- **Combining expertise, learning from each other, and sharing best practice**
  With a growing number of multi-specialist contracts, partnering often becomes a necessity. However, the benefits of sharing expertise extend beyond meeting procurement requirements. Interviews revealed that Mutuals see a lot of value in sharing best practice and learning from each other. Working in partnership was often highlighted as an opportunity for professional development for staff members.

- **Access to new geographies**
  Partnerships are often used as a means of accessing or learning about new geographies. Mutuals see value in partnering with small voluntary organisations who have links to the community that they don't.

- **Better outcomes for service users**
  Anecdotally, Mutuals observed better outcomes for service users as a result of delivering a contract in partnership. This has been most noticeable in health and social care services where partnerships help patients access services in a more timely and appropriate way.

> *"Partnerships brought together previously patchy services to a seamless patient journey."*
>
> – Health PSM

- **Risk sharing**
  Partnerships can help reduce risk by increasing capacity and sharing risk. In case of delivery failure of one partner, Mutuals reported being able to utilise other partners' capacity and skills.

- **Added credibility**
  Partners' specialisms and reputations are seen to add credibility when bidding to secure a new contract.

- **Networking and building relationships**
  Forming partnerships was often perceived as a long-term investment in building relationships with key players in the sector.

- **Shared infrastructure, additional systems and assets**
  Mutuals reported that entering partnerships allowed them to utilise partners' facilities and share infrastructure. Co-locating staff and sharing back-office functions were common examples of such practices.

> *"Strategically, it helped us with bid writing and getting some of our foundation ready to bid with another organisation."*
>
> – Social care PSM

- **Bidding skills**
  Gaining experience, skills and knowledge of forming partnerships to secure contracts is seen as beneficial in terms of developing practical commercial skills related to bidding. Mutuals reported gaining bid writing skills, insights into partnership formation, improved financial modelling and costing, and developing marketing skills.

Commissioners' perspective

Barriers to working with Mutuals

In order to gain a wider understanding of the challenges for Mutuals in bidding for contracts to deliver public services, we have conducted interviews with individuals who have extensive experience in this area.

Generally, commissioners highlighted that their main priority is achieving positive outcomes for the local population regardless of the legal form of the providers. They do not actively distinguish between Mutuals and other voluntary and social sector organisations. Nevertheless, they expressed a positive attitude towards commissioning Mutuals, recognising their potential to improve the quality of public services.

> *"I think [Mutuals] have a key role to play. They are part of the landscape and they are ideally placed in my view. I don't think they are the sole answer, but certainly one of the answers."*

However, two main barriers to commissioning community-benefit organisations emerged: (1) funding, and (2) procurement processes.

1. Funding
2. Procurement processes

Funding

Almost every year for the past decade, local authorities have been forced to find ways of sustaining or developing the current public service offer within an ever-diminishing financial envelope. Post-crisis financial pressure has been one of the most pressing factors that transformed commissioning significantly on the national level, decreasing in-house provision and placing more importance on the price of an offer.

Procurement processes

Commissioners observed that whilst they might be able to see strong arguments for procuring locally based Mutuals run to social enterprise values, i.e. reinvesting surplus into service improvement, the requirements of EU-wide competitive regulations meant that their hands were tied at the point where they go to market.

The screening and monitoring requirements constitute a significant barrier, as those requirements are often excessive and inappropriate for small community-based organisations with a commitment to social value.

> *"What can get in the way is the restrictions around fairness, transparency and competition. We want to work with them* [a Mutual]*, we trust them, we want to be flexible, but there are things that inhibit us that could mean that we come up with a much less satisfactory solution."*

Competing in the public sector for high value contracts carries a significant price tag that smaller organisations often struggle to meet. The sheer amount of time and effort, as well as specialist support needed to support a large bid process creates barriers for smaller organisations looking to compete on their own. A consequence is that smaller, less commercially experienced providers like Mutuals can struggle to meet the bar.

Tools to commission Mutuals and VCSEs

Our analysis revealed a number of tools that commissioners use to engage Mutuals and other third sector organisations in the delivery of public services. Other solutions are available, but these are those most commonly put into effect:

1. **Being open to consortia**
   Commissioners interviewed stated that if they believe there might be a number of small organisations interested in bidding, simply announcing that they are open to bids from consortia encourages smaller players to engage in the procurement exercise.

2. **Market engagement**
   Providing advance notice of commissioning intent can give Mutuals time to put a meaningful consortium together. Early interactions with the market and open dialogue with organisations interested in delivering a given service can help commissioners and providers to develop strategic relationships and jointly discuss how to deliver desired outcomes.

3. **Pilots**
   Commissioners were found to use pilots as means to engage with smaller providers and third sector organisations. They used pilots to test innovative solutions with smaller providers. If a pilot proves successful, it is then open to tender.

4. **Social Value Act**
   The Social Value Act requires commissioners to think about the broader economic, social, and environmental impact when procuring services. The use of a social value act is usually reflected in the inclusion of a social impact question in the bid. However, recent research has found that this approach has not been widely used by commissioners (at least in health) (White, 2017). Our interviewees noted that the Social Value Act can sometimes be a “slight red herring”, as there is no consensus around measuring social value and including this requirement might make the tendering process even more complex, costly, and thus discourage small players.

5. **Mutuals Exemption**
   Allows the commissioner to restrict the bidders to organisations with a social purpose who reinvest their surpluses into the community and have a degree of employee ownership/engagement. This, however, is limited to a single award of a 3-year contract. This approach can give Mutuals a safe launch for the first three years without having to face competition from larger and potentially better-funded private sector organisations.

   > *“Our procurement team was really excited, but it’s not a very effective way of achieving our goals, as it is only for three years.”*

6. **Direct award**
   If there is no real market for a given service, commissioners might decide not to carry out a procurement exercise and to award the contract directly to an organisation.

Appetite for partnerships

Commissioners see partnerships as key to delivering the outcomes they strive to achieve. We have found an increasingly positive attitude towards contracting consortia of smaller, local providers.

> *"I am observing quite a shift in commissioners' sense of a value of commissioning smaller social enterprises, Mutual, charities, because they provide a service to the local community that cannot be replicated by a bigger provider."*

However, they emphasised that partnerships between providers are not sufficient. The partnership between the commissioner and the provider is also an essential part of the success.

> *"It's not only about how organisations partner to deliver, it's also about how the local authority partners with them to make sure outcomes are achieved."*

The potential

Our analysis revealed a strong case for supporting Mutuals in forming partnerships. This is due to the following findings:

- Experience of forming partnerships was found to bring **long-term benefits** to Mutuals that extend beyond bidding for a specific contract with a partner(s).
- The shifts in commissioning towards **larger and more integrated contracts** in some markets require organisations to partner.
- Mutuals expressed **substantial appetite** for forming partnerships.
- The commissioners we interviewed believe that **partnerships play a key role** in delivering better quality public services and want to work with consortia of small organisations.
- Perceived barriers to partnering (legal, cultural, and time) can be overcome through appropriate support.

Moreover, Mutuals are optimistic about the potential of partnerships for their future organisational growth. When asked whether partnering with other organisations can improve their ability to secure different/bigger/more contracts, more respondents agreed with the statement in regard to the future. Although this isn't a true indication of the real potential for Mutuals to grow through partnerships, it is encouraging to see that Mutuals' attitude towards forming partnerships is positive and reflects a vision for growth.

Figure 8: *Respondents' attitude towards the potential of partnerships to improve their ability to secure different/bigger/more contracts in the past and in the future.*

Scope for developing partnerships

As the Mutual sector is relatively young and diverse with respect to size, service area, and geography, the scope for Mutuals to develop partnerships varies and depends on a combination of factors. Our analysis identified six main determinants of the potential for developing partnerships.

Geography and volume of work

Organisations in sparsely populated areas and where the volume of work is low are more likely to consider partnerships to benefit from shared resources.

At the same time, very high volumes of work which exceed organisational capacity encourage partnerships.

Mutual size and maturity

Our analysis suggested that experience of partnering is linked to the annual turnover of a Mutual. Once respondents were divided into quartiles with respect to their annual turnover, we found that all of the Mutuals in the top quartile had experience of partnering. Amongst the bottom turnover quartile only 38% had experience of partnering.

Another, related aspect of partnership readiness is commercial maturity. In the interviews, all Mutuals pointed out that in the early days after spin-out most time and energy went into establishing a foundation for the organisation to survive in a competitive environment. Thinking about partnerships as means for growth became more of a priority as the organisation matured. Mutuals that lack commercial maturity are yet to recognise that they must look beyond public-sector contracts in their own field to enhance their ability to enter new markets with new buyers.

Service area

The potential for Mutuals to form partnerships also depends on the service area. As mentioned earlier, Mutuals in the health and social care sectors are under most pressure to partner and thus might need immediate support. This, however, does not imply that the scope for partnerships in other service areas is low. For instance, Mutuals operating in the culture and leisure space have been increasingly thinking of operating in partnerships to create community hubs (e.g. library services working with employment services).

Competitive landscape

In very simplistic and general terms, Mutuals are more likely to form partnerships in more saturated competitive landscapes. Firstly, the high number of players in the market means Mutuals have a greater choice of potential partners. Secondly, partnerships in more competitive and saturated markets are seen as key to growth.

Commissioner's preferences and priorities

Partnerships are more likely to form in areas where (1) different commissioners work together in partnership to procure joint services and where (2) commissioners explicitly express interest in working with consortia.

Political and historical landscape

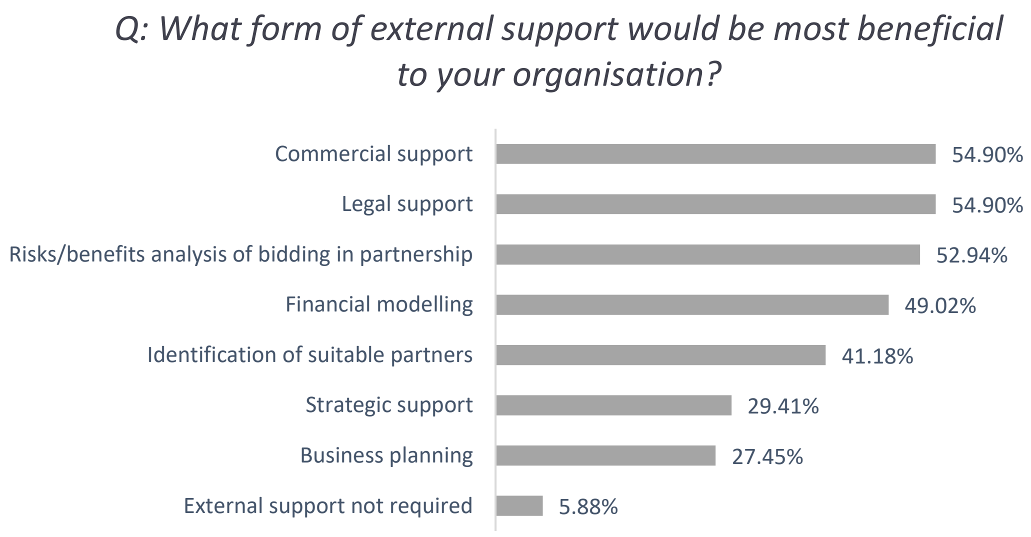
The approach to commissioning services is often determined by the political priorities of local authorities.

The history of the region is also an important factor; organisations are more open to forming partnerships where joint-working was common in the past.

Support Needs

Commercial and legal support were found to be the top support needs expressed by our participants. This was followed closely by support with risk/benefits analysis and financial modelling. Only three respondents indicated no need for external support. Amongst those who expressed a need for support an average of three support types were selected. This implies a need for holistic support packages that combine multiple business needs – not least when taken alongside the conclusion that partnering for the purposes of wider income diversification, not just to bid for contracts, is one of the fundamental ways in which Mutuals can protect their future sustainability.

Figure 9: *Respondents' preferences for different types of external support needs*



In addition to supporting Mutuals to access the kinds of external support described above, respondents had a number of excellent suggestions for the ways in which the government could support them. These included:

- **Stronger Mutual network**
  Respondents were keen to share experiences and learn from each other. One respondent in particular suggested an interesting way of strengthening such networks through exchange or shadowing schemes:

  > *"I think that building some sort of regional or national network and collaboration might be useful to explore working together. How about some work placements with other Mutuals? What if a member of my team got paid to go and work with another Mutual for a week? Or we could build a work placement network for young people. This would build relationships and might be beneficial for a longer-term future."*

- **Working with commissioners**
  Many Mutuals voiced challenges around persuading their commissioners of the benefits of working with consortia of smaller providers, including Mutuals.

  > *"Strategic support in the form of influencing commissioners who in our area do not understand and are not keen on joint ventures or alliances."*

  Additionally, an overwhelming majority of participants in this research sought centralised support in communicating the social value of Mutuals as organisations to commissioners.

- **Revisit the procurement processes**
  A number of procurement processes were perceived as disadvantageous towards Mutuals and small providers in general. For instance, short timescales when bidding were reported to rush decisions and incentivise 'responsive' partnerships.

  > *"Time pressures translate on quality. More time allows us to iron out some of the differences between partners"*

It was suggested that commissioners have an open dialogue to allow more players to engage early and form partnerships. This has already been implemented in the health sector and commissioners in other sectors are encouraged to follow this approach.

Another example of how procurement process affects Mutuals is the type of questions included in the bid. In particular, questions linked to infrastructure were found to be challenging for organisations with smaller balance sheets. To address these barriers, Mutuals suggested that commissioners reflect on the impact of the procurement processes on smaller providers.

- **Create a framework agreement**
  Recognising that the commissioners' will to work with Mutuals and other third sector organisations is often limited by the procurement processes, a creation of a framework agreement for social and third sector organisations including Mutuals was suggested.

Conclusion

The aim of this report was to assess the potential for Mutuals to form partnerships with other organisations specifically to bid for contracts, enhancing their ability to sustain and compete for work. The approach we took to explore this question focused on (1) understanding the current landscape that Mutuals operate in, (2) analysing Mutuals' experience of forming and working in partnerships, and (3) commissioners' perspective on working with partnerships of local social enterprises (including Mutuals).

Our analysis concluded that there is a strong case for supporting Mutuals in forming partnerships. This conclusion is supported by the following findings:

- **Mutuals have the potential to deliver better outcomes for public services**
  The creation of Mutuals is a direct result of central government's efforts to promote more open public services and explore the middle ground between in-house provision and outsourcing. Early research provides grounds to believe that Mutuals have real potential to deliver innovative, cost-effective alternative to public service delivery.

- **For benefits to be long-term, it is important to recognise partnering extends beyond bidding for single commissioned contracts**
  Experience of forming and working in partnerships was found to bring long-term benefits to Mutuals which extend beyond bidding for a specific contract with a partner(s). Some Mutuals are yet to recognise that they must look beyond public-sector contracts in their own field to enhance their ability to thrive. Specialist partnering brings opportunities to enter new markets with new buyers – including direct payments and self-payers. Any future support must target the overall sustainability of Mutuals.

- **Nation-wide shifts in the commissioning context require Mutuals to partner**
  Whilst the government has encouraged the growth of Mutuals, simultaneous drive towards regional aggregation of commissioning to deliver economies of scale in some markets, and more targeted support for vulnerable people in others, has made it increasingly challenging for the spin-outs to compete in this landscape successfully.

It is now essential that Mutuals partner with other organisations in order to:

- Respond to a commissioning shift towards larger geographies, as Mutuals are usually small with limited infrastructure and small balance sheets which restrict their access to capital needed to deliver larger contracts.
- Respond to a commissioning shift towards integrated services, particularly where Mutuals are highly specialised with a local offer targeted and focused on a specific set of user needs.
- Respond to a commissioning shift towards place-based and asset-based approaches, which means commissioners increasingly look at reaching for consortia of small, local providers.
- Meet financial requirements of public service contracts. Mutuals individually have limited access to the capital needed for larger contracts and therefore need to create new delivery vehicles through partnerships to meet those requirements.
- Achieve economies of scale that will allow them to place competitively-priced bids.
- Achieve wider benefits that extend beyond winning a specific contract and contribute to their long-term sustainability.

- **Mutuals express a substantial appetite to partner**
  There is a substantial appetite of Mutuals to partner with other organisations. Mutuals recognise the need to partner and the majority have explored this option. However, a push towards collaboration in an inherently competitive market proves to be challenging, preventing Mutuals to form and operate in partnership successfully.

- **Specialist support can unlock Mutuals' potential to form successful partnerships**
  Mutuals expressed a need for external support across multiple areas that usually combine commercial and legal support needs. Perceived and actual barriers to partnering concern legal complexities, cultural misalignments, and insufficient capacity to form partnerships. All three can be overcome through appropriate specialist support like help with construction of more formal and strategic vehicles, partnering model design, or development of investment cases.

Central government has invested in promoting and exploring alternative ways to deliver public services and the creation of Mutuals has been an important part of that. To maximise return on investment in the context of nation-wide commissioning shifts, it is crucial that Mutuals have the capacity and capabilities to form and work in partnerships.

What is critical to recognise is that to achieve effective collaboration that promotes the long-term sustainability of Mutuals, government-sponsored intervention should not be tied solely to partnering for the purposes of bidding for commissioned contracts. Mutuals must be encouraged and supported to identify other kinds of buyers for their services, and partnering will often be the necessary route to diversifying their service offer specialisms in order to access those markets.

The MPSP should focus on identifying pilot projects that cover a range of exciting new ways in which Mutuals can partner not just to succeed in the changing commissioning environment, but also to support vulnerable people in whichever way those citizens want to access services.

The programme should also aim to produce case studies and, where possible, tools and processes which can be shared to help the wider Mutual cohort pursue similar opportunities through better understanding of what partnerships can bring. By focusing on longer-term strategic partnership formation and best practice sharing, the programme will maximise its potential to achieve the government's ultimate objective of better outcomes of public services.

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