Alternative Models of Service Delivery

Introductory Booklet

Your introductory guide to Alternative Service Delivery in the Irish Public Service

FIRST EDITION
February 2016
Foreword by Mr. Robert Watt, Secretary General
Department of Public Expenditure & Reform

We continuously seek to improve and demonstrate excellence in the design and delivery of the services we provide to the public.

The use of Alternative Models of Service Delivery (AMSD) presents a variety of ways we can respond to the needs of citizens. It involves creating solutions and interventions that are bespoke, suitable and cost-effective. There is a growing international evidence-base favouring alternative models for the delivery of particular services.

Many of these models may not be commonly understood or utilised in an Irish context. That is why the Department of Public Expenditure and Reform has produced this explanatory document for Irish public servants.

Employing an AMSD will require novel and insightful thought. From its inception, the service design must be strategically focussed to address a problem or need, but it must also be sustainable in terms of its longevity. It is important to note that AMSD has been used to a greater extent in other jurisdictions; in some cases with thriving results, whereas others have failed to make any great impact. I believe that appropriate prior investigation, planning and analysis by Irish public servants will ensure that we can leverage this learning to create customised solutions that are successful for Ireland’s public services.

I am confident that where AMSD is properly planned and executed it can offer great potential for innovation in service delivery through access to a wider set of skills, technologies, capital and commercial acumen – as well as harnessing opportunities to share risk and reward.

I hope you find this guide to be a useful resource. I would encourage you to reflect on the services you are currently providing, or are considering providing in the future, to explore whether they would be suitable for delivery using an alternative model, such as those outlined in this handbook. Officials at my Department are available to assist you with any questions or queries you may have in relation to any such ventures.
Contents

About this booklet .................................................................................................................................................. ii

Overview ............................................................................................................................................................. 1

Alternative Models of Service Delivery .................................................................................................................. 3

1 Joint Ventures ....................................................................................................................................................... 3

1.1 Joint Ventures Case Studies ............................................................................................................................ 14

2. Managed Services and Government Owned Contractor Operated (GOCO) Entities ................................ 19

2.1 Managed Services ............................................................................................................................................ 19

2.2 Managed Services Case Studies ........................................................................................................................ 22

3. Government Owned Contractor Operated (GOCO) .............................................................................................. 24

3.1 Government Owned Contractor Operated (GOCO) Case Studies ................................................................. 26

4. Public Service Mutuals ......................................................................................................................................... 28

4.1 Public Service Mutuals Case Studies .................................................................................................................. 34

5. Concluding Remarks ........................................................................................................................................... 38

Appendix 1 Glossary of terms ............................................................................................................................... 44

Appendix 2 Summary of features .......................................................................................................................... 45

References .............................................................................................................................................................. 46
About this booklet

Who is this publication for?

This booklet is aimed at all public servants involved in the design and delivery of public services to provide a background and introduction to Alternative Models of Service Delivery (AMSD).

What is it about?

The aim of the booklet is to introduce some of the alternative methods by which public services can be delivered, as well as to assist in identifying the optimal model for each circumstance through introducing and discussing the

- Key features of each model
- Rationale for their use
- Benefits and challenges for each model
- Key success factors for each model

Examples for each model are provided to allow the reader to understand the application of each model in a real life setting.

Further information

This booklet is issued by the Department of Public Expenditure and Reform (DPER) to provide introductory information on AMSD. As such, it is a high level document and is not intended to provide exhaustive information about AMSD or on the legal forms and provisions for such delivery models.

This is a living document and will be updated regularly as the use of AMSD evolves. Please ensure you are working on the most recent version by checking on our portal where the most recent version will be saved.
Overview

What are Alternative Models of Service Delivery?

Traditional public sector models generally involve the direct delivery of services by government departments or agencies.

Alternative models of service delivery (AMSD) extend beyond the direct delivery of services by the public sector, to the private sector and/or not-for-profit organisations, undertaken with the aim of improving service delivery and/or cost effectiveness. The use of AMSD is not a new concept and these kinds of models have been implemented internationally for a number of years. Some of the drivers of AMSD include:

- Rising citizen expectations and demand for public services
- Fiscal constraints
- Desire to improve efficiency and quality of services
- Development of new and innovative ways of service delivery

The charts below outline some of the AMSD frameworks under which public services can be delivered.

As frameworks on traditional third party contracting models (particularly outsourcing) are already comprehensively covered in other DPER literature, this introductory booklet focuses on alternative models encompassing joint ventures and other arrangements including managed services, and government owned contractor operated models. This booklet also discusses the use of employee owned arrangements such as the public service mutual model.

It is recognised that, in reality, the classifications referred to in this document are not neatly bounded, nor are they mutually exclusive. Some models will necessarily feature elements that are common to other structures. Readers should bear in mind that this booklet is illustrative in nature and is intended to generate thought and provoke discussion by public officials around how best to design delivery models to suit the specific service they wish to provide to the public.

![Figure 1 Methods of Service Delivery](Image)
1. **Joint venture**
   - Public – private joint venture
     An arrangement where two or more public and private organisations enter into a formal arrangement with each other to achieve a shared objective by contributing their resources and sharing its risks and rewards
   - Public – public joint venture
     An arrangement where two or more public organisations enter into a formal arrangement with each other to achieve a shared objective by contributing their resources and sharing its risks and rewards

2. **Managed service**
   - The end-to-end transfer of a corporate function from government to an external expert provider, who provides the capabilities to deliver the services under a Service Level Agreement

3. **Government owned contractor operated**
   - Government contracts out the management and operation of an entire agency/service to an external provider, while retaining the key assets and property of the agency/service in government ownership

4. **Public service mutual**
   - An organisation which has left the Public Service (also known as ‘spinning out’) but continues to deliver public services for a guaranteed period of time

*Figure 2  Alternative Models of Service Delivery in this booklet*
Alternative Models of Service Delivery

1 Joint Ventures

What is a joint venture?

A joint venture (JV) describes the arrangement where two or more organisations enter into a formal arrangement to achieve a shared objective by contributing their resources and sharing its risks and rewards.

Joint ventures are useful in bringing together organisations with complementary attributes to achieve a shared objective e.g. formation of a public-private joint venture to complement the government’s policy expertise with private sector’s commercial knowledge to deliver the service in an effective and efficient manner.

In return for contributing towards the resources of the JV (e.g. assets, knowledge, personnel), the JV parties share in the rewards generated by the JV.

In the public sector context, joint ventures can be formed between organisations in the public sector, or between the public and private or not-for-profit sectors. They may also consist of organisations from all three sectors (public, private and not-for-profit).

*Figure 3 Types of joint ventures*
Joint Venture Arrangements

There are essentially two forms of JV arrangements. Firstly, a joint venture can be executed through a Joint Venture Agreement, or alternatively, through a Joint Venture Company set up for a specific purpose.

Joint Venture Agreement

A Joint Venture Agreement is established by joint venture parties to set out the terms and conditions of the joint venture arrangement.

Joint Venture Company

A Joint Venture company is a company set up as a separate entity to carry out the joint venture business. The company can be further categorised into other governance structures, with the key ones summarised below.

Company Types

There are a number of different company types pursuant to the Companies Act 2014.

Limited Company

The shares in a company are owned by its shareholders. If the company is a limited liability company, the shareholders' liability, should the company fail, is limited to the amount, if any, remaining unpaid on the shares held by them. A company is a separate legal entity and, therefore, is separate and distinct from those who run it. Only the company can be sued for its obligations and can sue to enforce its rights.
### Varieties of Limited Company

<table>
<thead>
<tr>
<th>Private Company Limited by Shares (LTD company)</th>
<th>Designated Activity Company (DAC) – (limited by shares)</th>
<th>Designated Activity Company Limited by Guarantee (DAC) – (limited by guarantee)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key features</strong></td>
<td>The members' liability, if the company is wound up, is limited to the amount, if any, unpaid on the shares they hold. The maximum number of members is 149. An LTD company can have only one director if it chooses. An LTD company does not have stated objects and can undertake any activity.</td>
<td>The members have liability under two headings; firstly, the amount, if any, that is unpaid on the shares they hold, and secondly, the amount they have undertaken to contribute to the assets of the company, in the event that it is wound up. The maximum number of members is 149. A DAC company must have at least 2 directors. Constitution includes a memorandum and articles of association. The memorandum will include stated objects.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Limited by Guarantee (CLG) (limited by guarantee not having a share capital)</th>
<th>Public Limited Company (PLC)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key features</strong></td>
<td></td>
</tr>
<tr>
<td>The members' liability is limited to the amount they have undertaken to contribute to the assets of the company, in the event it is wound up, not exceeding the amount specified in the memorandum. As a guarantee company does not have a share capital, the members are not required to buy any shares in the company</td>
<td>The liability of members is limited to the amount; if any, unpaid on shares held by them. It should be noted that it is unlawful to issue any form of prospectus except in compliance with the Companies Act 2014. The nominal value of the company’s allotted share capital must not be less than £25,000, at least 25% of which must be fully paid up before the company commences business or exercises any borrowing powers.</td>
</tr>
</tbody>
</table>

### Other Types of Company that may be relevant to Joint Ventures

**European Economic Interest Groupings (EEIG)**
EEIG’s are provided for under SI No. 191 of 1989 - European Communities (European Economic Interest Groupings) Regulations 1989, and SI No. 447 of 2010 European Communities (European Economic Interest Groupings) (Amendment) Regulations 2010. It is a mechanism through which business within the EU can engage in cross-border commerce. The purpose of an EEIG is to facilitate or develop the economic activities of its members. An EEIG must have a minimum of two members, who may be companies or natural persons, from different Member States. The manager of a Grouping may be a natural person or a body corporate.
Societas Europaea (SE)

A Societas Europaea or SE is a European public limited liability company formed under EU Regulation (Council Regulation 2157/2001) and the European Communities (European Public Limited Liability Company) Regulations 2007. S.I.21/2007. An SE can be formed by merger or as a holding or subsidiary SE or by conversion of a plc to SE. An SE must have members from different Member States unless an SE itself is setting up a subsidiary SE.

Figure 4 Joint Venture Agreements VS Joint Venture Companies

<table>
<thead>
<tr>
<th>JOINT VENTURE STRUCTURES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JOINT VENTURE AGREEMENT</strong></td>
</tr>
<tr>
<td>Contractual agreement covering governance, oversight and risk and reward allocation</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
</tr>
<tr>
<td>• Avoids complexities of formation and unwinding of legal structure</td>
</tr>
<tr>
<td>• Accelerates time to market</td>
</tr>
<tr>
<td>• Familiar to public sector</td>
</tr>
<tr>
<td>• Can be effective in predictable environment, or where the partnering arrangement is expected to be a short one</td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
</tr>
<tr>
<td>• Contract must foresee all eventualities</td>
</tr>
<tr>
<td>• Reduced ability to monitor and oversee partner activities compared to JV company</td>
</tr>
<tr>
<td>• Reputation risk due to lack of control/oversight over partner</td>
</tr>
<tr>
<td>• Parties work less closely, relying more on the contract. This can potentially lead to disputes</td>
</tr>
<tr>
<td>• Less flexible and less able to manage change</td>
</tr>
</tbody>
</table>

| **JOINT VENTURE COMPANY** |
| This involves setting up a limited liability company to carry out the joint venture activities |
| **Advantages** |
| • Supports risk sharing and management |
| • Link rewards directly to risks taken |
| • Limited liability for partners |
| • Flexible and familiar structure |
| • Corporate structure able to provide degree of independence from government shareholder |
| **Disadvantages** |
| • Complexity of setting up legal arrangements |
| • Potential conflict of interest for public sector directors, especially for profit distributing structures |
| • Influence limited by share of company |

Source: Deloitte (2010, 2014)

Staff arrangements

Under JV Agreements, staff continue to be employed by their respective employers under existing employment conditions (unless varied under the Agreement). Hence, government staff remain part of the public service.

For JV companies, government staff transfer across under the Transfer of Undertaking (Protection of Employment) Regulations\(^1\) (TUPE) to the new company, and are employed, remunerated and superannuated by the new company.

---

\(^1\) *Transfer of Undertaking (Protection of Employment) Regulations* (TUPE). The purpose of TUPE is to protect employment rights when the organisation in which they are employed is transferred to a new owner. A TUPE transfer maintains the terms and conditions of the employee when transferring from an old employer to a new employer. Its effect is to maintain the continuity of service by the employee in its original terms, and to move the employee and any liabilities associated with them from the old employer to the new employer.
For companies set up to undertake specific projects or programs (with finite lives), government staff may be seconded to the new company for the duration of the project or program, while remaining under government employment (unless they choose to TUPE transfer across).

**Rationale for use**

The rationale for a public sector organisation to enter a JV arrangement is generally due to the desire to access expertise and resources made available through the JV partner, together with a desire to retain management and control rights, and to participate in the rewards from the arrangement, as illustrated below.

*Figure 5 Rationale for a joint venture*

Fundamental to this arrangement is the prerequisite that:

- The partners have shared objectives;
- Each partner makes their complementary contributions to achieve their objectives through the JV;
- A partner who acts independently will be unable to achieve their objectives.
Benefits of joint ventures

The benefits of joint ventures are broadly strategic in nature. By enabling organisations to access resources from JV partner/s, they provide organisations with the capability to achieve objectives or undertake projects which otherwise would have been out of their reach. At the same time, they reduce the downside risk of bad outcomes through risk sharing.

Figure 6 Benefits of joint ventures

- Gain new capacity and expertise
- Access resources including staff, technology, IP and funding
- Access new suppliers and/or distribution networks
- Access new customers/markets
- Explore more innovative ways of delivering goods or services
- Reduce downside risk of an adverse outcome through risk sharing
- Allows a deal to be done on basis of non-cash contribution e.g. IP, know-how, assets
- Increase in control over its activities compared to other contractual arrangements

Process of establishing a joint venture

An overview of the key steps a public sector organisation would typically undertake in order setting up a JV is provided below (Deloitte 2014).

Figure 7 Steps in establishing a joint venture

Source: Deloitte (2014)
Key Success Factors

Observations of JVs found successful JV firms to consistently demonstrate the following features (also depicted diagrammatically below (Deloitte 2010, PWC 2012). These include:

- mechanisms in place to ensure clarity of purpose
- the design and implementation of organisation structure and processes to provide the partners with appropriate control
- people management framework in place to support the staff through the changes

*Figure 8 JV Key Success Factors*

<table>
<thead>
<tr>
<th>Clarity of purpose</th>
<th>Control</th>
<th>Managing people</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Understand and define the strategy and objectives for the JV clearly from the start for all parties</td>
<td>• Implement robust planning and programme management processes to underpin the JV objectives including management and reporting requirements</td>
<td>• The successful management of the people dimensions of change is the principal difference between success and failure</td>
</tr>
<tr>
<td>• Address communication culture and ensure “buy-in” across stakeholders</td>
<td>• Define the governance and risk management protocols</td>
<td>• Recognise that major changes increase uncertainty and ambiguity</td>
</tr>
<tr>
<td>• Identify resources and assets and establish clear ownership and accountability</td>
<td>• Give careful consideration to the appointment of the JV leaders and how they work as a team</td>
<td>• Remove uncertainty as quickly as possible through open, honest and timely communications</td>
</tr>
<tr>
<td>• Document a set of agreed upon and well understood organisation and operating assumptions</td>
<td>• Allocate your best people to managing the Implementation of the JV</td>
<td>• Involve and prepare the HR team early on, ensuring it is skilled and fully resourced</td>
</tr>
<tr>
<td>• Agree how value will be derived and shared with the JV partners</td>
<td>• Make planning and reporting frameworks as practical as possible</td>
<td>• Plan for change at all levels across the organisation and ensure effective support and training is available</td>
</tr>
<tr>
<td>• Focus on a small number of critical initiatives</td>
<td>• Tackle risks and issues quickly and take the tough decisions early</td>
<td>• Align objectives and rewards with the objectives of the JV</td>
</tr>
</tbody>
</table>

*Source: Deloitte (2010), PWC (2012)*
Challenges

The fundamental nature of a JV arrangement presents challenges in the need to align the various objectives of individual JV partners. An overview of JC challenges has been provided by Deloitte (2010, 2014) as follows.

Figure 9 JV Challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>According to Deloitte (2010), the vision for the JV is critical. The vision needs to be properly communicated and translated into practical implications for all to understand. Lack of clarity and communication on the vision of the venture may also lead to disputes and uncertainty. A poorly defined vision will also take longer to deliver, with increased cost, and erosion of profits.</td>
</tr>
<tr>
<td>Organisation Governance</td>
<td>The establishment of the JV’s Board and its governance arrangements can be challenging as each partner (and the JV’s own management team) has different agendas, needs, ideas and priorities, which may result in delays, unresolved issues and political difficulties. Some considerations for the public sector organisation include the alignment of governance arrangements with new roles governing the State Boards and new governance standards for the Civil Service.</td>
</tr>
<tr>
<td>Organisation Design</td>
<td>Developing the right organisation design is key to the JV’s success. As with any new enterprise, exceptional leadership and clear allocation of roles and responsibilities will be required for the organisation to achieve its objectives. Time and effort needs to be invested into building the right organisation design and structure.</td>
</tr>
</tbody>
</table>
Risk and Incentive Alignment

It is essential that JV partners have a mutual understanding of each other’s long term business objectives and potential areas of conflict.

Issues may arise from an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.

Where JVs may be supplying services back to their parent organisation, the use of subsidiary contracting may be important in protecting intellectual property and assets, or enabling secondments and service agreements.

Finance and Legal

Most failed public sector JVs run into problems because of financing rather than delivery performance (Deloitte 2010). Accordingly, it is crucial that time and resources should be invested, including obtaining specialist advice, to identify the right financing options for each new JV.

Other issues which must be examined include:
- **Tax implications**: which can have a financial impact on its business case
- **Accounting treatment**: which determines the budgetary and financial control framework under which the new entity operates, as well as potentially impacting upon the government’s overall fiscal position

- **Legal considerations**: including applicable international frameworks and laws such as the EU procurement framework and European case law

Impact on Staff

JVs are rarely transacted speedily (Deloitte 2010), with a prolonged transaction timeline being particularly distracting for employees.

The JV must have clear HR policies and processes in place for staff affected by the JV, especially around TUPE transfers and pensions.

There is also the risk that different cultures and management styles may result in poor integration and co-operation thereby risking the benefits of any JV arrangement.

Impact on Original

*Original organisations*
The impact of a significant JV can be extensive on the original organisations. Understanding and managing the multiple touch points and interfaces are critical
Organisation and Customers

in ensuring that the original organisations continue to operate effectively.

Customers
Existing customers may become confused by the direction taken by the JV, its products or service offerings. A customer communication and marketing plan will be required throughout the transaction and JV establishment period to help customers transition through the change.

Exit Strategy

Most JVs have a fixed life beyond which they are either wound up, sold or absorbed back into the public sector. A public body should have a robust exit strategy focusing on difficult issues such as disbursement of assets, equity and liabilities at sale or break-up, and codified into the legal structure of the JV to mitigate unintended consequences at exit.

Source: Deloitte (2010, 2014)

Issues to consider

A checklist for setting up a company may include the following:

Figure 10 Suggested checklist for setting up a JV company

Checklist for setting up a company

<table>
<thead>
<tr>
<th>Does the trading arrangement comply with legislation and regulations?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the trading arrangement comply with EU procurement rules?</td>
</tr>
<tr>
<td>Is there a conflict of interest for members or officers acting as board members or directors of the company?</td>
</tr>
<tr>
<td>What are the exit plans if the company fails to be competitive?</td>
</tr>
<tr>
<td>As the company expands, how will any conflict of interest over workload priorities be managed?</td>
</tr>
<tr>
<td>What will be the impact on the government’s reputation and public perception if the company fails?</td>
</tr>
<tr>
<td>How will the government mitigate the impact of failure on its budget?</td>
</tr>
<tr>
<td>What will be the impact on the government’s debt?</td>
</tr>
<tr>
<td>What are the tax implications?</td>
</tr>
<tr>
<td>What are the Government Accounting implications?</td>
</tr>
<tr>
<td>How will contractual disputes be managed?</td>
</tr>
<tr>
<td>What are the governance arrangements to ensure the financial sustainability of the company?</td>
</tr>
<tr>
<td>Question</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>What will be the staff impact?</td>
</tr>
<tr>
<td>What will be the pension arrangements going forward?</td>
</tr>
</tbody>
</table>

Source: Grant Thornton (2014)
1.1 Joint Ventures Case Studies

Public - Private Joint Venture Company

Teranet (Canada)

Who are they?

Teranet developed, owns and operates the Electronic Land Registration System (ELRS) in Ontario, which is one of the most advanced land registry systems in the world. In addition, it offers a complementary suite of innovative solutions for real estate and financial professionals, utilities, and local authorities in mapping, property valuation, tax collection and risk assessment products.

The system is accessed online for a fee via proprietary software by lawyers, conveyancers, financial institutions, realtors and planners/surveyors. It has a network of over 81,000 end users, 34 real estate boards and over 250 municipalities and institutions, and has approximately 525 employees.

The company was established under a Public-Private Partnership with the Ontario Government to convert and automate Ontario’s 200-year-old paper-based system to an electronic land registration system in 1991.

The decision was not made out of necessity as the paper based system was not broken. Rather, it was to take advantage of advances in technology to improve the service and reduce costs.

The project was initially undertaken in-house, but the Government started looking for private sector partners as it found the project beyond its capabilities. At the same time, the private sector was interested in developing land-related information systems.

Under the partnership agreement, Teranet owned the ELRS, while the Ontario Government retained ownership of the data.

Benefits

Some of the benefits generated by Teranet included:

*Increase in efficiency*
Especially in the real estate sector, where Teranet has simplified the title search process as well as made it more accessible

*Workplace and innovation awards*
Awarded for IT innovation, public-private partnership and quality of work life

*Development of new software products*
Developed new software products such as paying parking tickets online and online legal research and education

*Exporting technology and expertise*
Provision of technology and services to other provinces and international governments
Benefits to Government

- Cash infusion through partnership investment
- Avoidance of capital investment and maintenance costs
- Enhanced operational efficiencies resulting in customer and citizen satisfaction
- Created new employment and increased skill base
- Modernised a critical element of social infrastructure
- Unearthed value in dormant asset to create value for tax payer

The Ontario Government sold its 50% share in Teranet, reaping an estimated $200 million in net profit in 2003. To protect public interest, the Government retained the power to set fees for using the land registration system as well as retaining ownership and control of the data, statutory fees, policy, legislation and standards for the land registration system.

In 2010, the Government extended its exclusive relationship with Teranet by 50 years. The Government received an upfront payment of $1 billion and a 50 year stream of annual royalty payments in return for the use of the Government’s registry offices and data.

Public - Public Joint Venture Company

**Norse Group (UK)**

**Who are they?**

The Norse Group (Norse) is wholly owned by Norfolk County Council, comprising NPS Property Consultants, Norse Care Ltd and Norse Commercial Services Ltd. It is a successful business with annual turnover of more than £170m, and a workforce exceeding 9,000. It has private and public sector clients ranging from councils, housing associations, schools and hospitals, to commercial properties and businesses.

The formation of Norse Group was initially to create a company of sufficient size to bid for major public sector projects in services such as facilities maintenance, property management, waste management, care services and transport.

**Benefits**

Fundamental to the Norse Group’s success is its use of innovative joint venture arrangements with clients to deliver high quality front end services while making savings for clients.

Using building control work performed by a council as an example, Norse Group would undertake fee earning activity for no charge, while charging an annual fee for non-fee earning work and investing in staff and technology. The fee charged was lower than the current costs paid by the council (e.g. £60,000 annual fee for current costs of £270,380).

This way, the Norse takes on the financial risk of fee earning building control work (e.g. checking plans, carrying out compliance inspections, issuing formal completion certificates) while providing certainty on costs of non-fee earning work (e.g. provision of advice, administration of buildings regulations work, enforcement actions). Part of the profit made by Norse on the fee earned was shared with the council.

Through its innovative joint partnership arrangements, Norse assisted its partner authorities in increasing cost efficiency, raising standards of delivery and adding social value. This has generated surpluses for the benefit of both Norse and its partners.

Faced with increasing pressure on public sector finances, more and more local authorities have chosen to work closely with Norse to launch such cost-efficient joint ventures.

**Source:** Norse Group (2015)
Viapath (UK)

Who are they?

Viapath is a pathology provider which operates over 60 routine and specialist laboratories across the UK. It started as GSTS Pathology in 2009 as a joint venture which paired the scientific expertise between Guy’s & St Thomas’ NHS Foundation Trust with the back office support of Serco, and subsequently expanded to include the automated laboratories at Kingspath at King’s College Hospital NHS Foundation Trust. It was the first venture of its kind to address a key recommendation in Lord Carter’s 2008 Review to integrate the skills of multiple hospital trusts into a smaller number of expert, outsourced pathology services.

GSTS was rebranded to Viapath in 2014.

Benefits

The consolidated scale, size, expertise and experience of the partners enabled the cost efficiency which allowed the company to bid more competitively.

The partnership arrangement has also enabled new tests and improved diagnostic strategies for clinical teams as well as companion diagnostics for new medicines.

As at 2014, Viapath was making a revenue of £97 million, hiring more than with 1,000 staff (half of whom were on secondment). It was also carrying out 7 million tests a year for 1,000 customers.

The partnership plans to replicate its approach across the NHS.

Ministry of Northern Development and Mines (Ontario Geological Survey) (Canada)

Who are they?

The Ontario Geological Survey (OGS) is a branch within the Ministry of Northern Development and Mines which carries out field-based investigations to define and understand geological processes and the earth resources to support mineral investment priorities as well as provide knowledge about the state of the environment for public purpose. OGS holds and provides public access to Ontario’s public geoscience data and information.

Benefits

The OGS undertake joint ventures with geoscience partners in public, private and academic organisations to build up Ontario’s geoscientific “evidence base” to ensure a competitive and sustainable minerals sector. It does this by providing logistical support, staff time and funding, for which they get confidential geological information and support investigations which otherwise would not have occurred. The other joint venture parties in return provide funding and other in-kind contributions.

As an example, the Bedrock Mapping Project was undertaken through a joint venture between the Ministry of Northern Development and Mines (Ontario Geological Survey), Geological Survey of Canada and 5 private sector mining companies.

The aim of the project was to map and research the geological, geochemistry, volcanology and mineralisation of the Abitibi Greenstone Belt, which is a 2,800 - 2,600 million year old greenstone belt spanning the Ontario-Quebec border in Canada.

The project was undertaken as an agreement between the partners, which outlined the schedule, deliverables, financial commitments, intellectual property rights, publication rights and confidentiality arrangements. The project was guided by a steering committee.

The contributions made by each partner were as follows:
- OGS provided logical support, staff time and funding and results publication ($90k over 3 years)
- Geological Survey of Canada provided administrative support and funding ($90k over 3 years)
- Each of the 5 private sector partners provided $15k each and $15k in-kind contributions each year for the 5 year term of the project ($450k over 3 years)

The project has resulted in various publications on the Abitibi Greenstone Belt (Ayers J 1997, 1999, 2000)

Source: Ontario Public Service Restructuring Secretariat (1999)
2. Managed Services

This models involves the delivery of public services by external providers using arms-length arrangements whereby the external provider also provides a management/stewardship function beyond the traditional vendor-customer arrangement. So far, this model has been used internationally to deliver functional aspects of public services, such as scientific or research capabilities, business technology and management of intellectual property.

2.1 Managed Services

What are managed services?

Managed services involve the end-to-end transfer of a corporate function to an external expert provider, who provides the capabilities to deliver the services or goods under a Service Level Agreement (SLA).

The SLA defines the agreed outcomes (or service levels) which the provider must meet in delivering their services. Under a SLA arrangement, payment is only made when the SLA defined outcome (or service level) is achieved. SLA payments in managed services are also recurrent in nature, as they are dependent on whether the outcomes (or service levels) have been achieved on a period by period basis.

According to market research performed by Deloitte, while the market for managed services in the public sector has mainly consisted of technology services, the category and scale of managed services have recently widened to include records management, facilities management and customer contact centres. Governments in some jurisdictions are now considering the use of managed services for frontline service delivery (Deloitte 2014).

*Figure 11 Managed Services VS Outsourcing*
Staff arrangements

Under managed services, staff are managed and employed by the service provider. Hence, Public Service staff transfer across under TUPE and become employees of the service provider. However, to ensure the security of employment, the staff employment can be based on the function being undertaken by the service provider. Hence, should there be a change in service provider, the existing staff stay on and continue their employment under the new service provider.

Rationale for managed services

The growth in managed services has reflected the move towards outcome based models as organisations looked beyond cost reduction to include key objectives such as quality improvement and service levels. Adverse outsourcing experiences such as severe cost overruns and poor service quality have also contributed to the move towards such models, which allow the closer alignment between the needs of both parties. The SLAs in managed services enables the client organisation to align the reward system to service expectations, as well as reward providers on the basis of meeting or exceeding stipulated performance benchmarks.

Managed services providers are usually experts in their service area, who are able to introduce best practice in service delivery to client organisations.

Benefits of managed services

The core attribute of the managed services model is in enabling organisations to introduce the highest quality work practices through the use of expert providers, while ensuring the alignment of objectives through the SLA. The figure below summarises the key benefits of this model.

Figure 12 Benefits of managed services
Challenges of managed services

The challenges of managed services mainly relate to the ability to combine potentially different cultural cultures and practices to ensure commercial discipline while improving service levels (Information Technology Outsourcing – Practitioner’s Perspective 2009).

Figure 13 Challenges of managed services

<table>
<thead>
<tr>
<th>Information requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lack of understanding – the use of this approach requires providers to have a full and in-depth understanding of the scope and pain points of relevant organisation functions. Failure to do so may result in inability to meet agreed outcomes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Culture mismatch – there may be a mismatch of culture and expectations between the provider and client organisation</td>
</tr>
<tr>
<td>• Change in ways of doing things – change management initiatives may be required to complement the introduction of commercial skills and practices</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cultural fit – ability to replace public sector practice with more commercial work practices</td>
</tr>
<tr>
<td>• Resistance by government staff – due to uncertainty over transfer of employment rights (e.g. TUPE) and pension</td>
</tr>
<tr>
<td>• Difficulties in recruiting staff – the provider may encounter difficulties in attracting staff with the desired skills and capabilities from the private sector to fill vacancies in the managed service function</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Incumbent provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lack of co-operation – the existing provider is unlikely to be co-operative in the event of the new vendor selection. This will cause significant difficulties for the transitioning process</td>
</tr>
</tbody>
</table>
 Managed Services

Defence Equipment and Support (UK)

Who are they?

Defence Equipment and Support (DE&S) are a bespoke trading entity, and arm’s length body of the Ministry of Defence (MOD) in the United Kingdom. The entity employs approximately 12,500 civilian and military personnel around the UK and overseas. They manage a vast range of complex projects to buy and support all the equipment and services for the Navy, Army and Air Force. The DE&S priorities are:

- providing the right equipment to the armed forces and supporting it, whilst delivering better value for money to the taxpayer
- transforming the organisation so that it can better support the armed forces.

In 2014, MOD offered a set of managed service provider contracts to acquire private-sector expertise to support the transformation of DE&S. The managed service providers (MSPS) were brought in to work alongside existing DE&S staff to help change the way DE&S managed the buying and support of defence equipment, and to help deliver the MOD’s 10-year £164 billion equipment plan. The aim of this procurement was for the private sector skills to complement existing in-house expertise, as well as provide the support required to ensure that DE&S can reach its goal of becoming a ‘best in class’ acquisition organisation.

Each MSPS contract had a base term of three-and-a-half years, with two one-year optional extensions. Contractors worked across different areas to provide economies of scale and to join up resources as appropriate. A company called CH2M Hill (engineering and services design) were offered the contract for project delivery in the Land and Joint Enabler areas, with Bechtel (construction and civil engineering company) offered the contract for the Air and Fleet areas. The human resources contract was overseen by PwC (consulting firm).

By complementing existing in-house expertise with external resource and capacity, this model was viewed to offer better value for money for taxpayers in ensuring that the armed forces had the best support possible.

Benefits

Key benefits from this model were in enabling:

**Increased Capacity**
This model allowed for increased capacity within the existing organisations

**Increased Capability**
By ensuring that external capability can be brought into the heart of an existing organisation

**Different Perspectives**
By allowing for different perspectives to be brought into an existing organisation and to provide alternative view on existing practices

Source: Ministry of Defence (2014)
Managed Services

LGSS

Who are they?

LGSS is a shared service jointly owned by Cambridgeshire and Northamptonshire County Councils. In 2010 the Councils merged their Corporate Services into a single, shared service providing all professional, transactional and operational services to both Councils.

LGSS has since expanded into the business of being the managed services provider for a full range of business, professional, strategic and transactional services for other councils. It differentiates itself through being ‘by the public sector for the public sector’ and by offering the best value alternative to traditional service providers.

![Figure 14: Services provided by LGSS](source: LGSS (2015))

Since its inception, the company has secured major new contracts across the region with many other public service organisations including councils, NHS Health Bodies, Adult Care Services and schools.

LGSS operates with a joint risk/reward business model, whereby all savings are shared between LGSS and its customers, which also allows the entity to operate as a genuine trusted partner compared to other private sector based alternatives. After nearly four years in operation LGSS now has over 1400 staff providing services to over 300 public sector customers in our region.

Benefits

The growth of LGSS’s client based has resulted in increasing economies of scale and leveraging of existing skills and assets. Since its launch in 2010, it has generated savings projected at £20.5m by the end of 2014, with total savings expected to reach £30.6m by 2017/18. This signifies a multi-fold return on the initial £3.3m investment made by Cambridgeshire and Northamptonshire County Councils in 2010.

Source: LGSS (2015)
3. Government Owned Contractor Operated (GOCO)

What is a GOCO?

A government owned contractor operated entity (GOCO) describes an arrangement whereby the government contracts out the management and operation of an entire agency/service to an external provider, while retaining the key assets and property of the agency/service in government ownership. This is generally used in sensitive sectors e.g. defence and medical or scientific research, to enable governments to take back control if the need arises.

This arrangement imposes more stringent requirements than a common contractual relationship by imposing operational risk on the provider, such that the contractors are made legally liable for ‘bad faith’ actions by their management and as well as overruns and contract losses (Forfás, the National Policy and Advisory Board for Enterprise, Trade, Science, Technology and Innovation, 2007).

The National Physical Laboratory (NPL) in the UK is an example of a GOCO body, where specialised research functions operate under contract. Under GOCOs arrangements, the Government retains ownership of the assets, while external contractors deliver the services, under a clear dichotomy of roles and functions between the Government and the Contractor.

According to research conducted by Deloitte across private sector service providers and government departments in ‘Form must follow function – Implementing new business models in UK public services’ (Deloitte 2014), some areas under consideration for GOCOs included:

- procurement functions for high capital spending departments
- scientific and technical services that support the police or military
- professional development capabilities including colleges and training institutions
- organisations for the management of transport schemes such as road pricing.

Staff arrangements

Typically, Public Service employees transfer across under TUPE to the GOCO service provider and are managed and employed by the service provider. Should that service provider get replaced, the employees TUPE transfer to the incoming service provider.

Rationale for GOCOs

GOCOs enable the delivery of public services using private sector practice and processes while the Government retains the public sector assets. In addition to enhancing effectiveness and efficiencies through the introduction of private sector innovation and practices, the Government is able to retain control over the business where potential risks are too high to be devolved to the private sector.
Benefits

The benefits of GOCOs derive from the ability to use private sector best practice to enhance efficiency and effectiveness, while still remaining in government ownership and control.

Figure 145 Benefits of GOCO

- Enables public service to be delivered with commercial best practice
- Allows employees more autonomy in carrying out their functions
- Up-skilling of existing public service staff
- Some risk transferred to the provider
- Increased levels of service provision at lower cost
- Government retains public sector assets and control

Challenges

The main challenges faced by GOCOs include the ability to cultivate commercial skills and capabilities and the need to form clear business rules (Deloitte 2014).

Figure 156 GOCO challenges

<table>
<thead>
<tr>
<th>Staff</th>
<th>Organisation</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Cultural fit – ability to replace public sector practice with more commercial work practices</td>
<td>- Difference in organisation culture – the GOCO may require a change management process to support a culture which promotes commercial skills and practices</td>
<td>- Difficulty in tendering – difficulties in tendering due to the lack of transparency or a separate arrangement to facilitate competition in the tendering process</td>
</tr>
<tr>
<td>- Resistance by staff – due to uncertainty over transfer of employment rights (e.g. TUPE) and pension rights</td>
<td>- Business relationship – clear rules must be established between the new entity and the government about the running of the entity. E.g. total access to all records and processes so that the government can take over operations in an emergency or replace the provider without disrupting operations</td>
<td></td>
</tr>
<tr>
<td>- Difficulties in recruitment – difficulties in attracting staff with the desired skills and capabilities from the private sector</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.1 Government Owned Contractor Operated (GOCO) Case Studies

**National Physical Laboratory (UK)**

**Who are they?**

The National Physical Laboratory (NPL) develops and maintains the national measurement standards for the UK. It is responsible for developing and maintaining UK’s primary measurement standards, and supports an infrastructure of traceable measurement throughout the UK and internationally to ensure accuracy and consistency in the standards governing time, mass and distance. It is the largest applied physics laboratory in the country and provides private companies access to its technical expertise on a commercial basis.

The NPL was created in 1995 when the Government called for proposals from the private sector to manage the existing laboratory under the GOCO contract model. All staff and scientists transferred to the new management company NPL Management Limited. Under this GOCO structure, should the contractor lose the management contract upon rebid, the scientists and staff would continue to work at the organisation, thereby ensuring employment stability.

Some of the key drivers for choosing the GOCO model were:
- The government continued ownership and control of the laboratory
- Ability to introduce commercial management, with the freedom to change the management

The NPL transferred back to the government in 2015 to take back the risks of providing new premises for the NPL, when the competitive process was unable to provide suitable bidders.

**Benefits**

The move to GOCO has changed the nature of the work with:
- NPL’s work becoming more applied. In addition to developing new measurement standards, it has also become heavily involved in industry funded work in applying the measurement to solve industry problems.
- More tightly controlled work, with more rigour required in the analysis and consultation in business cases for new projects.
- Increased collaboration in R&D with universities and businesses and similar institutes in other countries.

The change had also resulted in significant savings and better utilisation of staff and resources without compromising quality. For instance, in the first 5 years of operation, commercial income had increased by 300%, while cost reductions from improved efficiencies had enabled a growth in staffing levels from 570 to 670.

By 2010, there had been a 50 per cent decrease in overheads, with the entity experiencing an 8% increase in productivity plus higher staff retention rates. The GOCO had also delivered an efficiency savings of £22.5m to the government, with capital investment of £50m over the 2004-2014 period. In addition, there had been a doubling of peer reviewed papers generated by the NPL, with citations increasing by 116 per cent.

**Source:** Bowsher B (2009), Quentin M (2011)
Community Health Partnerships (UK)

Who are they?

Community Health Partnerships (CHP) is wholly owned by the Department of Health in England. Since 2007, it has been operating as a government owned contractor operated (GOCO) entity offering a unique blend of investment, property management and strategic estate planning services to government for the purpose of optimising the use of primary and community health estates.

It does this by developing and implementing Local Estate Strategies to drive system improvements, support service transformation and release capital from buildings that are no longer fit for purpose. The entity also provides professional strategic asset management services to effectively manage the government’s estate through improved utilisation and contract management, to optimise property values.

Through its property portfolio of 305 integrated health and wellbeing centres, CHP provides a home to over 1400 tenants including GP practices, frontline Local Authority services, libraries, pharmacies, fitness centres and a wide range of community and social care providers.

In their role as Head Tenant, they provide professional property management services to effectively manage their estate through improved utilisation and contract management, driving out value from our property to contribute to wider system savings.

CHP also has a dedicated investment function to manage its existing investment portfolio and look to new investment opportunities. Through its investment portfolio, CHP has delivered facilities to areas of greatest need in bringing real health benefits to those communities. Investment has exceeded £2.5 billion to date, and delivered 338 facilities.

Benefits

CHP has generated benefits from being:

*Public Sector Led*
Using public sector expertise to drive change within existing organisations

*Flexible*
Being able to call on uniquely skilled additional capacity to work within UK National Health System

*Having Whole System Knowledge*
CHP has been able to bring knowledge from across the whole system into individual projects and localities

Source: Community Health Partnerships (2015)
4. Public Service Mutuals

What is a Public Service Mutual?

A Public Service Mutual (PSM) generally describes an organisation which has left the Public Service (also known as ‘spinning out’) but continues to deliver public services.

Mutuals are organisations in which employee control plays a significant role in their operation. They are an innovative form of contracting out that involves contracting with former government employees to deliver a service previously delivered directly by the government. While the notion of employee control is central to a PSM, the degree and method of control may vary from ownership through shares, to employee participation on boards of governance.

Other issues to consider in a spin out include the treatment of intellectual property, assets and staffing.

Staff arrangements

The creation of a PSM requires the transfer of public service staff under TUPE to the new organisation, where they become employees/owners of the PSM in accordance with its governance arrangement.

Historical Context

While this form of public service delivery has been used in the UK since late 1980s and 1990s\(^2\), the use of PSMs accelerated under UK’s Labour Government after 1997 and continued under the subsequent Coalition Government. The use of PSMs was at the core of Coalition’s 2012 White Paper ‘Open Public Services’ and led to initiatives such as the Mutuals Support Programme encompassing a webportal and helpline, as well as £10 million in funding to support PSM formation.

As at 2014, more than 100 PSMs employing over 35,000 people were delivering over £1.5 billion of public services, generating more than 3,000 new jobs across the UK (UK Cabinet Office 2014).

Across the globe, the Australian Government is starting to explore the use of PSM as an alternative way of public service delivery with the release of its 2014 White Paper ‘Public Service Mutual: A third way for delivering public services’. Even before this, PSMs have been formed in areas including home care, leisure facilities and other disciplines with niche expertise.

---

\(^2\) For example, the development of New Housing Associations and the transfer of leisure management services into New Leisure Trusts - Hazenberg R. and Hall K (2013) Enterprise Solutions – Barriers & Solutions to Public Sector Spin-Outs, RSA 2020 Public Services
Rationale for use and benefits

Broadly, the rationale behind PSM is underpinned by the concept of employee empowerment and its beneficial impact on service delivery as summarised by the diagram below.

Figure 167 Rationale and benefits


PSMs are particularly well suited to situations where:

- Specialist service is needed
- User input is required in service design and delivery
- Profits are low or variable
- The service is too expensive for government or the market to provide

(Business Council of Co-operatives and Mutuals 2015)
Process of mutualisation

The process of mutualisation or spinning out, can be broadly categorised into three stages of: Pre-spin out phase, spinning out phase and sustainability and growth phase (Le Grand 2012), as depicted below.

Figure 178 Process of mutualisation

**Stage 1**
Pre-spin out phase
Explore options for setting up a PSM including:
- Business planning
- Staff consultations
- Seeking support of unions and government body

**Stage 2**
Spinning out phase
Work out important business, governance and technical issues including:
- Organisation, legal and business structure
- Transferability of employment rights such as
  - Terms and conditions covered by TUPE regulations
  - Transferability and options for future provision of pension entitlements
- Tax issues such as
  - VAT costs and other existing and new tax liabilities
- Options for the use and/or transfer of publicly owned assets

**Stage 3**
Sustainability and growth phase
- This is the period after the PSM set up when the PSM is seeking to achieve long term growth
- Key issues include obtaining access to finance during the growth phase

Source: Le Grand (2012)
Key success factors

Research on PSMs have found the reasons behind successful spins out to be myriad and complex. Nevertheless, commonalities have been found between successful spins outs, such as supportive institutional frameworks, access to specialist support, supportive key stakeholders and contracts spanning five years or longer (Association for Public Service Excellence 2011). Some of these key success factors have been summarised below.

Figure 189 Key success factors

![Figure 189 Key success factors]

- **Supportive Frameworks**
  - Clearly defined legal framework
  - Tax and growth incentives
  - Enabling commissioning and procurement framework

- **Stakeholders Support**
  - Buy in from key stakeholders including staff, the public, unions, elected members and government body

- **Access to Capital**
  - Access to funds especially when in the early stages of the business

- **Specialist Business Support**
  - Ongoing support and expert advice, especially in the early set up stages

- **Contract Terms**
  - Contract length of five years or longer, which also locks in previous benefits including staff terms and conditions and training

Source: Association for Public Service Excellence (2011)
Challenges

Barriers to mutualisation may arise from existing stakeholders such as staff and staff representatives over matters such as TUPE transfers and pensions. Other challenges relate to staff’s ability to adopt commercial work practices in enabling the organisation to compete with other larger, more experienced competitors (UK All Party Parliamentary Group on Employee Ownership 2011).

It is worth noting that studies of mutualisation in the UK have generally found the mutualisation decision to be driven by necessity, such as government restructuring policies, rather than by choice. In these cases, mutualisation was undertaken to avoid the alternative of being put out to tender (Hazenberg et al 2013).

*Figure 20 Mutualisation challenges*

**Staff**
- Commercial nous – staff lack commercial skills and expertise
- Cultural fit – ability to replace public sector practice with more commercial work practices
- Resistance by staff – due to uncertainty over transfer of employment rights (e.g. TUPE) and pension

**Stakeholders**
- Existing stakeholders – getting buy-in from existing stakeholders including customers and employee representatives

**Structural**
- Tax implications – subject to same tax system as private sector (unless charity), hence subject to corporate tax, VAT (except services like health and education) and payroll implications including PAYE
- Assets – need to understand options and choices on acquiring and transferring across
- Financial viability – limited access to funding and limited ability to generate sustainable income

**Business Environment**
- Competitors – ability to compete against larger and more established competitors in the market

*Source: Hazenberg et al (2013)*
Actions to consider

Some actions to complete when setting up a PSM include the following:

Figure 191 Suggested actions to consider when setting up a PSM

<table>
<thead>
<tr>
<th>Financial</th>
<th>Legal</th>
<th>Staff</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure assets and raise finance</td>
<td>Document the transfer</td>
<td>TUPE consult and transfer</td>
<td>Establish cash management arrangements</td>
</tr>
<tr>
<td>Secure contracts</td>
<td>Register as a corporate body and with appropriate regulatory body</td>
<td>Agree new job descriptions, objectives and performance management arrangements</td>
<td>Create independent accounting system</td>
</tr>
<tr>
<td>Agree the budget for the first year of operations</td>
<td>Agree contracts, leases and Service Level Agreements for corporate functions such as IT, finance and payroll</td>
<td>Establish pension scheme for employees</td>
<td>Agree payroll arrangements</td>
</tr>
<tr>
<td>Put in place internal and external auditors</td>
<td>Agree service contracts, including financial arrangements and performance management</td>
<td>Advertise and recruit new positions</td>
<td>Create or transfer IT systems, purchasing and process systems</td>
</tr>
<tr>
<td>Set up bank account and working capital facility</td>
<td></td>
<td>Address gaps in senior management and board capability and skills</td>
<td>Put necessary insurance in place</td>
</tr>
</tbody>
</table>

Source: Cabinet Office (2014)

To enable fledgling public service mutual the opportunities to gain experience in delivering services before being exposed to EU-wide competition, European Directive Law permits competition for certain contracts, mainly in the social and health sectors to be “reserved” for organisations such as eligible mutuals and social enterprises.

The reservation works by allowing organisations meeting the criteria for mutuals or social enterprises to bid for these services, subject to certain conditions.

It is expected that the Irish Law will provide a similar provision for the reservation of certain types of contracts. A set of guidance notes will be made available once legislation is passed by the Oireachtas (parliament).

Source: Department of Public Expenditure and Reform (2015)
4.1 Public Service Mutuals Case Studies

Public Service Mutuals

Oldham Community Leisure (UK)

Who are they?

In 2002, Oldham Council announced its intention to outsource its leisure facilities to private provision. Concerned about the impact of this on existing staff, staff and unions worked together in searching for an alternative option; one which would better protect staff conditions and preserve the benefits for the Oldham communities. A small specialist consultancy was also brought in to provide advice and support.

The idea of moving to a cooperative model was first suggested by one of the unions, and the staff eventually accepted this model on the basis that:

- They would be the ‘real owners’ of the new organisation through share purchase
- Staff terms and conditions would be accepted
- Stability will be maintained e.g. management systems and trade union recognition

OCL was established, and won the contract to service the leisure facilities after a competitive process.

The initial contract for 5 years has been extended on a yearly rolling basis since.

Benefits

*More agile and responsive organisation*

The movement away from bureaucratic processes has enabled OCL to have a quicker decision making process, as well as increased responsiveness to stakeholder needs.

*Increased staff engagement*

Employees have increased their interest in process and services improvement projects, with staff innovations being implemented. Management and staff also described a cultural shift with increased pride shown by staff in working for OCL, as well as staff being conscious of being owners of the business.

*Increased efficiency*

Staff levels increased from 160 during transition to 240 in 2010, while council subsidies had halved. Sickness levels had also halved from 6 per cent at transition to 2.6 per cent.

Challenge

The finite nature of the contract has resulted in the perceived lack of stability, which had impacted on staff morale and also made it difficult to obtain private funding for larger developments.

Source: Office of Public Management (2010)
Co-operative Home Care (Australia)

Who are they?

Co-operative Home Care (CHC) is an employee owned PSM which provides home care services for the elderly and disabled. The organisation grew from a desire to provide a more conducive working environment for the home care industry typified by lower pay, poor working conditions, limited support networks, lack of career progression, and barriers to training and development.

The CHC model aimed to provide a business which involved the worker employees directly, and where workers co-operatively made decisions on issues which affect them, such as salary, work schedules, client care programs, training and development. It has also made a significant investment into its owners/employees through continuous engagement and training. Profits earned by the business are reinvested to improve systems, conditions or preserved for the future.

Starting with four members in 2013, by 2015, CHC had grown to a profitable organisation with 18 employees and 8 worker members, providing 500 hours of care weekly.

Some of the key features used in the development of the business were the engagement of lawyer and accountants for their technical expertise, reaching out to network of similar organisations to share in their experiences, engagement development of training courses and holding regular meetings as forums on strategic and operational issues.

Benefits

The more inclusive and conducive work environment at the CHC resulted in a more motivated and engaged employees, which led to an enhanced quality of care for its clients.

Challenges

CHC has encountered a number of challenges since its inception including a lack of knowledge of employee owned co-operatives, accessing government funding, financial management and governance.

Sunderland Home Care Associates (20-20) Ltd (UK)

Who are they?

Sunderland Home Care Associates (20-20) Ltd (SHCA) is an employee owned company which provides home care to the aged and disabled in and around Sunderland.

Starting as a co-operative in 1976, it was converted into an employee owned company in 1998 on the basis that giving employees a real, growing stake in the company, would increase their commitment, help raise staff retention as well as the quality of service provided.

The conversion involved setting up an Employee Benefit Trust (EBT) as a tax efficient way of passing shares to employees. Share allocation took place on the basis of length of service and the number of hours worked, with a salary ceiling of £12,500 (now £17,500).

Since then, the share price had increased multi-folds, necessitating a 10-1 share split as the rise in share price from £2.60 to £16.50 per share made the employee share scheme unmanageable to run.

SHCA is now owned by over 300 care workers from the local area, with a turnover of around £6.8 million per annum.

The model has been replicated in other cities in the north of England through an umbrella company, Care and Share Associates.

### The Behavioural Insights Team (UK)

#### Who are they?

The Behavioural Insights Team (BIT) started life inside the UK Government as the world’s first government institution dedicated to the application of behavioural sciences, with the objective of:
- making public services more cost-effective and easier for citizens to use
- improving outcomes by introducing a more realistic model of human behaviour to policy; and wherever possible
- enabling people to make ‘better choices for themselves’

Demand for its services grew as BIT started identifying tens of millions of pounds of savings for government, spreading understanding of behavioural approaches and developing a reputation as a world leader in its field.

It was subsequently spun out of the government into a Public Service Mutual (PSM), and incorporated into a private company jointly owned by the UK Government, innovation charity - Nesta, and BIT employees.

#### Benefits

Becoming a PSM has allowed the team to expand in terms of staff and also locations, with the team now expanded into Australia and the US. It has also given the organisation the ability to provide its terms and conditions to better meet employee needs, in increasing retention and in talent recruitment.

*Source: Cabinet Office (2015)*
5. Concluding Remarks

In review

So far, we have introduced alternative methods by which public service can be delivered as follows:

- Chapter 1 provided an overview of joint ventures
- Chapters 2 and 3 introduced managed services and GOCOs
- Chapter 4 discussed public services mutuals

Primary objective

As reflected in our previous discussions, the primary objectives of Alternative Models of Service Delivery (AMSD) are to enable the better delivery of services by using mechanisms to access private sector expertise and best practice (joint ventures, managed services and GOCOs) or involve greater employee engagement and operational flexibility (public services mutual).

Figure 202 Primary objective of AMSD
Research on public service

AMSD have the capacity to address public sector issues such as those found by research undertaken by the Public Management Foundation (2003) on the UK public service. These issues are summarised in the figure below.

*Figure 213 Issues in UK public sector*

<table>
<thead>
<tr>
<th>Limited access to capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ New forms of organisations to increase access to funds</td>
</tr>
</tbody>
</table>

**Need for incentives to improve services**

| ▪ View that being the monopolist supplier provides little incentive for the public sector to innovate or develop their service offerings |
| ▪ For improvement to occur, there must be real choice and risk |

**Need for creativity**

| ▪ Lack of autonomy may have inhibited creativity |
| ▪ Increasing autonomy through new organisational forms or new ways of doing things may enhance creativity and invigorate the public sector |

**Mixed experience of private sector delivery**

| ▪ Problems with private sector involvement sometimes due to inefficient contracting and purchasing practice |

**Need for plurality of providers**

| ▪ Greater diversity in any sector dominated by the public sector could be advantageous by enabling more creative and innovative approaches to service provision |
| ▪ Plurality and diversity of providers may also attract more high quality professionals to the public service |

Source: Public Management Foundation (2003)
Use of AMSD

Studies of countries with cultures, legal frameworks and institutions similar to Ireland (UK, Canada and Australia) have found prevalent use of AMSD in the delivery of public services. The use of each model by sector and function (as applicable) has been summarised below.

Figure 224 Use of AMSD

<table>
<thead>
<tr>
<th>Model</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>JOINT VENTURES</td>
<td>Tends to have a strong commercial aspect, but can also be undertaken to obtain cost savings and/or get closer to customers. Can be functional in nature, or sector based</td>
</tr>
<tr>
<td></td>
<td><strong>Functions</strong></td>
</tr>
<tr>
<td></td>
<td>For example, business services which are:</td>
</tr>
<tr>
<td></td>
<td>✓ Facilities oriented e.g. waste management, facilities management</td>
</tr>
<tr>
<td></td>
<td>✓ Knowledge oriented e.g. business advice, asset management, procurement, planning</td>
</tr>
<tr>
<td></td>
<td>✓ IT based e.g. shared services for back office</td>
</tr>
<tr>
<td></td>
<td><strong>Sectors</strong></td>
</tr>
<tr>
<td></td>
<td>✓ Justice e.g. correctional services, police support such as forensics services, emergency handling centres</td>
</tr>
<tr>
<td></td>
<td>✓ Health care e.g. hospitals, pathology services, integrated health services</td>
</tr>
<tr>
<td></td>
<td>✓ Social e.g. employment programs, social care programs, regeneration projects</td>
</tr>
<tr>
<td></td>
<td>✓ Sciences e.g. innovative and science research projects</td>
</tr>
<tr>
<td></td>
<td>✓ Agriculture e.g. forestry programs</td>
</tr>
<tr>
<td>Managed Services</td>
<td>Tends to be function based e.g. IT infrastructure, scientific or research capabilities, management of intellectual property/records management, customer contact centre.</td>
</tr>
<tr>
<td>GOCOs</td>
<td>Services requiring highly specialised skills e.g. defence and medical or scientific research, usually in a sensitive sector.</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>PUBIC SERVICES MUTUALS</td>
<td>Generally based on improving outcomes in human services or social welfare i.e. services with strong social objectives.</td>
</tr>
<tr>
<td></td>
<td>PSMs have been operating in the areas below:</td>
</tr>
<tr>
<td></td>
<td>✓ Aged and disability services</td>
</tr>
<tr>
<td></td>
<td>✓ Social services e.g. child welfare, employment services, housing co-operatives</td>
</tr>
<tr>
<td></td>
<td>✓ Leisure and community services e.g. adult literacy programs, community leisure services</td>
</tr>
<tr>
<td></td>
<td>✓ Innovative and research programs</td>
</tr>
</tbody>
</table>

**Decision criteria**

The appropriateness of any given delivery model for a service depends on its particular circumstance, and needs to be assessed on a case-by-case basis. The World Bank has provided a set of decision criteria in determining if alternative models of service delivery could be applicable (World Bank 2005). The set of criteria as adapted to the Irish public sector has been outlined below. According to the criteria, AMSD should only be used if the project/program passes the external partnership test.

*Figure 235 The World Bank’s Decision Criteria*

![Decision Criteria Diagram](image-url)

Factors to consider

On a more practical level, additional factors which have to be considered include the presence of existing service providers, the ability for private sector to value add, and the potential for commercialisation, as summarised in the following figure (Ontario chamber of commerce 2014).

Figure 246 Factors to consider in moving to AMSD

| Presence of providers in the market | It is easier to find a suitable service provider when there are numerous active services providers in the space, and a market for the service already exists |
| Potential for cost savings | A move to AMSD should consider whether it would provide a high potential for cost savings |
| Ability to continue additional value | The government should assess if the private sector has the ability to contribute additional value through the resources made available (e.g. capital, IT, expertise) |
| Ability to improve service delivery | The government needs to consider if the move engender improvements in service delivery. Given the opportunity costs of continuing to deliver a service inefficiency or ineffectively, this provides a sufficient reason to move to an AMSD |
| Measurable and attributable | It is a precondition of AMSD that the service costs and outcomes are measurable and attributable |
| Experience in other jurisdictions | It is useful to examine if the service has successfully moved to an AMSD in other jurisdictions, and consider the presence of contextual factors |
| Potential for commercialisation | The government should assess if an AMSD could extend the scope of the service to the commercial sphere, which could potentially generate greater returns to the government |

Source: Ontario chamber of commerce (2014)

Critical issues

Critical issues to consider in any move to an alternative model of service delivery include the presence of regulatory or legislative barriers, the design of appropriate governance and accountability mechanism, and the use of appropriate incentive systems (Public Management Foundation 2003) (refer to diagram below).

Figure 257 Critical issues

Source: Public Management Foundation (2003)
Next steps

If you are considering an AMSD project, or interested in finding out more about this topic, you could think about the following steps:

**Step 1:** You should familiarise yourself with relevant on-line information (this can be found on the Alternative Models of Service Delivery (AMSD) portal on the Government network and Government websites).

**Step 2:** You should contact the AMSD unit in the Department of Public Expenditure and Reform. They can provide expertise around the various types of external service delivery and explain how to start the process.
# Appendix 1 Glossary of terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alternative Models of Service Delivery (AMSD)</strong></td>
<td>Models of service delivery which extend beyond the direct delivery of services by the public sector, to the private sector and/or not-for-profit organisations, undertaken for the aim of improving service delivery</td>
</tr>
<tr>
<td><strong>Direct Provision</strong></td>
<td>Direct delivery of services by government departments or agencies</td>
</tr>
<tr>
<td><strong>Government Owned Contractor Operated (GOCO)</strong></td>
<td>An arrangement whereby the government contracts out the management and operation of an entire agency/service to an external provider, while retaining the key assets and property of the agency/service in government ownership</td>
</tr>
<tr>
<td><strong>Joint Venture (JV)</strong></td>
<td>An arrangement where two or more organisations enter into a formal arrangement to achieve a shared objective by contributing their resources and sharing its risks and rewards</td>
</tr>
<tr>
<td><strong>Joint Venture Agreement</strong></td>
<td>An agreement established by joint venture parties to set out the terms and conditions of the joint venture arrangement</td>
</tr>
<tr>
<td><strong>Joint Venture Company</strong></td>
<td>A company set up as a separate entity to carry out the joint venture business</td>
</tr>
<tr>
<td><strong>Managed Services</strong></td>
<td>The end-to-end transfer of a corporate function to an external expert provider, who provides the capabilities to deliver the services or goods under a Service Level Agreement (SLA)</td>
</tr>
<tr>
<td><strong>Outsource (External Service Delivery “ESD”)</strong></td>
<td>Contracting out a service or activity which used to be undertaken within an organisation to an external service provider</td>
</tr>
<tr>
<td><strong>Public-Private-Partnership (PPP)</strong></td>
<td>Usually refers to joint ventures which are funded and operated by public and private parties to deliver large scale infrastructure projects</td>
</tr>
<tr>
<td><strong>Public Service Mutuals</strong></td>
<td>Generally describes an organisation which has left the Public Service (also known as ‘spinning out’) but continues to deliver public services</td>
</tr>
<tr>
<td><strong>Service Level Agreement (SLA)</strong></td>
<td>Contract which defines the agreed outcomes (or service levels) which the provider must meet in delivering their services</td>
</tr>
<tr>
<td><strong>TUPE transfer</strong></td>
<td>TUPE stands for the <em>Transfer of Undertaking (Protection of Employment) Regulations 1981</em>. The purpose of TUPE is to protect employment rights when employees transfer from between businesses</td>
</tr>
<tr>
<td></td>
<td>A TUPE transfer maintains the terms and conditions of the employee when transferring from an old employer to a new employer. Its effect is to maintain the continuity of service by the employee in its original terms, and to move the employee and any liabilities associated with them from the old employer to the new employer</td>
</tr>
<tr>
<td><strong>Ultra Vires</strong></td>
<td>Doctrine in corporation law which holds that when an entity enters into a contract beyond its scope of powers, the contract is illegal</td>
</tr>
</tbody>
</table>
## Appendix 2 Summary of features

### Table 1 AMSD Summary of features

<table>
<thead>
<tr>
<th>Method</th>
<th>Asset Ownership</th>
<th>Who Manages Service</th>
<th>Employer</th>
<th>Employee Arrangement</th>
<th>Capital Provider</th>
<th>Risk Bearer</th>
<th>Payment Mechanism</th>
<th>Governance</th>
<th>Period of Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsource</td>
<td>Government/Vendor</td>
<td>Vendor</td>
<td>Vendor</td>
<td>TUPE transfer optional</td>
<td>Government and Vendor</td>
<td>Vendor and government</td>
<td>Government funded</td>
<td>Contract</td>
<td>Fixed term/ongoing</td>
</tr>
<tr>
<td>Managed Service</td>
<td>Government</td>
<td>Vendor</td>
<td>Vendor</td>
<td>TUPE transfer optional</td>
<td>Government</td>
<td>Vendor and government</td>
<td>Government performance based</td>
<td>Service Level Agreement</td>
<td>Ongoing</td>
</tr>
<tr>
<td>GOCO Organisation</td>
<td>Government</td>
<td>Vendor</td>
<td>Vendor</td>
<td>TUPE transfer optional</td>
<td>Government</td>
<td>Vendor and government</td>
<td>Contract plus share of profit</td>
<td>Contract</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Joint Venture Agreement</td>
<td>Shared according to agreement</td>
<td>Shared according to agreement</td>
<td>Existing employer</td>
<td>Existing</td>
<td>Partners</td>
<td>Partners</td>
<td>Share of profit/loss</td>
<td>Partnership Agreement</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Joint Venture Company</td>
<td>Shared according to incorporation rules</td>
<td>Shared according to incorporation rules</td>
<td>Company</td>
<td>TUPE transfer or secondment</td>
<td>Partners</td>
<td>Partners</td>
<td>Share of profit/loss</td>
<td>Instrument of Incorporation</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Public Service Mutual</td>
<td>Shared according to structure</td>
<td>Employees</td>
<td>Staffed according to structure</td>
<td>TUPE transfer</td>
<td>Shared according to structure</td>
<td>Shared according to structure</td>
<td>Share of profit/loss</td>
<td>Self-governed</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
References


Bowsher, B (2009) submission to the Lords Science and Technology Committee Enquiry into science research funding priorities from the National Physical Laboratory


Cabinet Office and Hon. F Maude MP (2014) ‘Cabinet Office Mutuals reach century success’


Co-operatives UK (2011) ‘Time to get serious: international lessons for developing public service mutual’

Community Health Partnerships (2015) Business Plan 2015-16


Deloitte (2014) ‘Form must follow function – Implementing new business models in UK public services’

Grant Thornton (2014) ‘Responding to the challenge: alternative delivery models in local government’


Norse Group (2015) at <http://www.norsegroup.co.uk/>

Ontario Chamber of Commerce (2014) ‘Unlocking the public service economy in Ontario: a new approach to public-private partnership in services’


PWC (2012) ‘Navigating Joint Ventures and Business Alliances – Success factors in executing complex arrangements that are challenging to negotiate, operate, monitor and exit’

Quentin, M (2011) ‘Getting better value from public sector research establishments’


Viapath (2015) at <http://www.viapath.co.uk/>