Half a century after the foundation of the welfare state, public services face a crisis of identity. Governments – both Labour and Conservative – talk increasingly of market forces and privatisation. State control is seen as synonymous with bureaucracy. Users are in many cases voting with their feet – opting out of state system, flocking to private health or education providers and forcing a new nervousness amongst politicians about pledges to raise taxes for the common good.

Is there another way? In this fifth NEF pocketbook, Ed Mayo and Henrietta Moore argue that we need to recreate an old tradition to meet new challenges. The tradition is mutualism – a system of small-scale self-help that was running successful social services a thousand years before the birth of the NHS – and the challenge is embodied in the new debates on participation, stakeholding and the Third Way. As the authors show, many people have already responded to this challenge: mutualism is alive and well in the twenty-first century. And because it gives people the chance, as citizens, to engage democratically, it holds out the prospect not merely of better, more user-friendly services but of a broad-based renewal of civil society.

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Cover Picture: Shaker community of New Lebanon engage in dance, the women clockwise in the centre, while their menfolk circle around them. Engraving by unnamed artist in La Illustration Espanola y Americana, 1873 (Mary Evans Picture Library).
The Mutual State
How local communities can run public services

Ed Mayo and Henrietta Moore

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Foreword

The last ten years have seen a wave of demutualisation in the private sector. In the next 10 years, Labour could create a wave of new mutualisation in the public sector.

Labour’s election manifesto makes it clear that we will be radical about public services reform. We are committed to bringing in providers to help improve quality and encourage a spirit of enterprise in public service as much as in business.

But there is no reason why new partners in public services should only come from the private sector. In a second term, Labour should be seizing the opportunity to promote social enterprises – not-for-profit businesses committed to social goals.

Britain already has a small, but flourishing social enterprise sector. Housing associations are increasingly important as social landlords. Greenwich Leisure Ltd – an employee co-operative established for the benefit of the community – has created better leisure services at lower costs to the council. In Glasgow, the Wise Group has become one of the leaders in intermediate labour market provision, training and employing unemployed young people in energy insulation, recycling, tree planting and care services. In Newcastle, the North East Music Co-operative was created in response to cuts to the LEA music teaching service. Now a co-operative
of music teachers has succeeded in providing more music teaching than ever before.

Social enterprises have three great advantages when it comes to improving our public services. First, they are more likely to experiment and innovate. Second, they can find it easier to attract and retain highly motivated staff, free of the bureaucracy that hampers many large organisations, both public and private sector. Most social enterprises have a high degree of employee participation, and many are partly or wholly owned by their employees.

Third, social enterprises offer ways of involving excluded groups – including residents in low-income areas and people with disabilities – in designing and delivering their own services. Community cafes, furniture recycling facilities, house repair services, child-care co-operatives and other local services all offer a double win – they provide services that are often in very short supply in disadvantaged neighbourhoods, and they enable local residents to develop skills, self-confidence, business experience and employability.

Public service reform will be Labour’s toughest challenge in our second term. People have enormously high expectation of public services – and rightly so. But effective change cannot be imposed from above. We need to set clear goals but we also need to give front-line staff more freedom to find the best way of achieving those goals. We need to combine the best practice of the public sector with the best of both the
private and the not-for-profit sectors, creating new partnerships for public service.

We must ensure that everyone responsible for public services – whether in national government, local councils, the NHS or other organisations – considers the possible contribution of social enterprises.

The New Economics Foundation has pioneered much of the thinking and practice in this field, including new models of finance and public participation. This report offers a compelling and fresh new vision for public services.

Patricia Hewitt MP
Secretary of State for Trade and Industry
Introduction

Rethinking Public Services

Public service reform is top of the political agenda. Without fresh ideas, the obituary for the welfare state will read, “Fondly remembered – Failed to deliver”. There will be nowhere for the public sector to go except the corrosive route of break-up, privatisation, confusion and citizens’ distrust.

There is, however, a new vision for government, based not on serving citizens but on co-operating with them. The idea is simple. Citizens, on their own or coming together at a neighbourhood or some other level, play a key role in the design and delivery of public services.

We call this the Mutual State. It draws on a long history of mutual approaches that enlist people as partners rather than users. But it recreates a new form of mutuality focused on participation and social entrepreneurship rather than conventional ownership.

This pocketbook describes the new mutuality and sets out the vision of government it embodies.
The last two decades have seen a battle for the control of public services. On the one hand was the post-war tradition of state-owned, state-run services. On the other was privatisation, the idea that monopoly public services should be subject to market forces.

Privatisation radically shifted the public-private boundary. Significant sectors of economic activity, such as telecommunications and public transport, have moved from public to private ownership. The role of the public sector in other services, from housing to street cleaning, has shifted away from direct delivery towards quality control and contracting out, to both private and voluntary sectors. The organisation of the remaining public sector services, in such areas as health and education, has adapted to new technologies and organisational and accounting techniques familiar to the private sector. But people remain suspicious of privatisation reaching into the heart of public services.

After the high water mark of privatisation in the early 1990s, politicians armed with books sporting titles such as Reinventing Government rediscovered their confidence in the
nation state as an executive body. Service agreements, improved management, and new technology formed the new package of modernisation. The managerial state was reborn.

The triumph of management?

The New Labour government, elected in June 2001, has been quite clear in its stance on public services. Services such as health and education, still seen in some quarters as inflexible, bureaucratic or performing poorly, must be run efficiently. Competent management is the watchword; there is no room for ideology. The preferred images are of ministers with shirtsleeves rolled up, focused on schools, nurseries, hospitals and the front-line of public service delivery.

Good management should not be confused with centralisation. Centralisation is not always wrong – the literacy hour in schools has worked well. But it has many unintended consequences. Schools have gone so far down the road of centralisation that teachers’ scope for initiative is much diminished and creativity has suffered. Morale is on the decline: it is significantly lower in the public sector than the private or voluntary sectors. In many public services, this has translated into a recruitment crisis. Seventeen thousand nurses say they wish to leave the NHS, effectively doubling the recruitment target faced by New Labour at the time of the election. Issuing edicts may go down well in Whitehall. In reality, the only effective way to manage slow-moving bureaucratic leviathans is to change the organisation itself.
The Battle for Public Services

The new government, says Oxford University’s David Marquand, is Old Labour in one crucial respect. It falls too easily into the mindset of Sidney Webb – the early Fabian champion of the central state and of “command and control”. And although this may be a little unfair to the architects of Sure Start and the New Deal for Communities – innovative programmes for childcare and regeneration in which the voluntary and local community sectors have been centre-stage from start to finish – the real truth is that New Labour has no consistent vision of public sector organisation. It is committed to modernisation. It is committed to improving outcomes, and in all probability to the fuller funding required to make that happen. But it has no clear conception of the means. The new buzzword, “diversity”, is a positive way to legitimise different approaches, from privatisation to new public sector management, but does little to guide management choices, such as how to run the London Underground.

If there is to be consistent modernisation, ministers and civil servants need a consistent modern philosophy of management. Good management is about institutional renewal. And, just as business has flattened its hierarchies and opened itself up to more dynamic and fluid ways of organising, so the managerial state needs to open up to more decentralised, participative models. If local community involvement could be demonstrated to improve the design, delivery and experience of public services, it should undoubtedly form a key part of the modernisation agenda.
A new social contract

There is a more fundamental reason for civic engagement, however – the renewal of the democratic state. The travails of public services are not simply a product of poor management, inadequate funding or the wrong political party. There is a systemic issue involved – the role and extent of the state itself.

The post-war settlement in Europe was that beyond a certain point, of poverty, age or ill health, the role of the market or of charity ended: the state would take over full responsibility. This was the social safety net, a line below which the welfare of citizens would not fall. The welfare state, with the consent of all, provided for those who could not provide for themselves.

It is this consent – the social contract of the welfare state – that is unravelling. It held together as long as the costs of redistribution could be covered by taxation and as long as a significant proportion of the citizens felt that they were receiving more than they were giving. But society has become more diverse, less cohesive, more consumer literate and therefore both more demanding and more critical of public services.

To maintain consent at the ballot box, both the Major and Blair governments started to shift responsibility for welfare, whether it was pensions and benefits or tuition fees, on to individual citizens. But targeting specific, improved, social
outcomes carries a penalty. It produces services that are less than universal, so that people no longer see themselves as part of a collective. For example, people without children may well see the extension of parental rights in the workplace as an indirect tax on their labour. The result is tension between those who see themselves as independent of the social collective and those who are thought to be dependent upon it.

A reformist impulse was evident in the government’s first term, in the attempt to spell out specific rights and responsibilities as the basis for new forms of social contract. This was the rationale behind the “New Deal” and the emphasis on working families. But these new forms of social contract have not been easy to establish. Without a sound foundation – the consent and participation of those at whom they are aimed, for example – they can simply appear coercive or neglectful. Getting such reform right is the political centre-ground which the main parties will fight over up to the next election.

So on the face of it, the debate over public services looks like an age-old debate about redistribution and its limits – who pays for what, how much society as a whole is prepared to underwrite groups within it. But the real challenge is more fundamental. It is about reworking and renewing the relationship between individuals.

Direct involvement by people in the services society provides would refresh the public realm, rebuild commitment to wider
society and re-engage them as citizens. We spend a huge amount on public services – £350 billion a year. Whether the hospital in Kidderminster or a local primary school, people care about public services that are part of the community. Involving people in their delivery would thus offer a powerful opportunity for a wide-ranging and participatory civic renewal. And there is a way to create such a renewal. It is called mutuality.
Mutuality is an ancient way of getting things done. It means that an organisation is run with the close co-operation or control of key stakeholders. As Pat Conaty has pointed out in his work for the New Economics Foundation on the history of citizens’ participation, mutuality predates the modern public, private and charitable sectors in Britain by almost a thousand years.

**Mutual aid**

The earliest records of mutual social enterprises date in Britain to the time of St. Augustine in the sixth century. He refers to the demise of the Roman Empire, which had left behind the legacy of mutual aid groups for artisans called collegia. Across Europe these formed the seeds of what in the eleventh century evolved into mutual craft guilds.

The craft guilds were the small companies of their time. Indeed the term company comes from the Latin terms *con* and *panis*, meaning to take bread together. As the workshop and sales shop was also the master’s house in the town, all the members of the guild, journeymen and apprentices included, had lunch together.
Each guild was defined by common work and common trade. They ranged from lawyers, priests and scholars to butchers, bakers and hosiers. Work was strictly regulated. An average day was eight hours – though this varied with the seasons. Night work was strictly forbidden. Guild work was not allowed on Saints’ Days, of which there were at least 150: there have never been so many annual holidays since. Saint Days were not “days off”, though. They were reserved for civic work – building a cathedral, attending to the needs of the poor and elderly.

The guilds provided the only real welfare around. This included funeral and disability insurance as well as pensions. They had extensive responsibilities in the area of the town where they existed. Again, the modern word “owner” derives from the medieval word “ower” – an indication that, then, social responsibilities ranked above property rights.

The guilds shaped and ran many mediaeval towns. With populations of 1,000 to 10,000, these were divided into quarters. In each quarter, guilds in similar trades grouped themselves for networking and co-production (for example of furniture). In turn, these guilds took responsibility for the development of their residential area through “neighbourhood guilds” which over the years established the quarter’s market square, water fountain, parish church and also the local grammar school, hospital and almshouse. Neighbourhood guild members took responsibility for street sweeping and maintaining the pavements, and for volunteer
policing on a rotation basis. Each guild could turn itself into an armed regiment, to defend the town in time of war.

This maze of mutuality was unravelled by the Black Death, which reduced the urban population of England by up to a half by the end of the fourteenth century, and by the rise to ascendancy of the nation state. In this process the local regulation of commerce was lost and the long-distance merchant guilds gained the upper hand over the local craft guilds. Social service guilds (the neighbourhood guilds and almshouses) either went into decline, were brought under the 1601 Charity Law or made the responsibility of the national poor law rate system.

Common ownership

From the sixteenth century French Huguenots exiled in London formed the earliest of a second wave of mutuals – the friendly societies. These insured their members against sickness or the costs of funerals. The Friendly Society Act of 1757 legalised such self-provision by groups and the number of friendly societies soared to over 7,200 in 1801, with 650,000 predominantly working-class subscribers.

These were the forerunners of the co-operative movement. Leaders of this movement, in eighteenth-century Britain, Ireland, the USA and France, shared a utopian socialist ideal – that of creating a mutual aid economy. Among them were Robert Owen, William King, William Thompson and the Continental thinkers Saint Simon, Fourier and Proudhon.
In 1830 flannel weavers in Rochdale formed the Rochdale Friendly Co-operative Society after a strike. It started with subscriptions for sickness benefits before moving on to a small library service and, in 1833, a co-op shop. The initiative failed in 1835 after giving too much credit to its members. But in 1843, after two years of another strike, two original members persuaded starving weavers to try again. They registered a new co-op in October 1844. The lessons of the previous failure were learnt; this time, the co-op prospered. With it came a new mass international co-operative movement.

The Co-op shop movement in the UK grew in strength until the 1950s. Between the wars there were 1,400 societies. Membership climbed to 11 million and the Co-op, with a 25 per cent share of the market, dominated retail sales. Since then, as in many other European countries, the consumer co-operative movement has been in steady decline. It now holds just 4% of the retail market. Demutualisation, a word which came to prominence in the 1990s, simply accelerated the same trend. Mutuality on a large scale failed to engage members, who opted for the benefits of private ownership.

**Participation**

The third and most recent wave of mutuality started in Edinburgh in the year Margaret Thatcher came to power – 1979. A group of residents in Craigmillar came together with the idea of setting up a business run by and for the community. Within five years 45 such businesses were up and running in
neighbourhoods across the Lothian and adjacent Strathclyde, all focused on local services, from arts to workspace.

Not all succeeded. Nevertheless a new generation of what might loosely be termed social enterprises was born. There was no insistence on a co-operative ownership model – the new bodies ranged from charities to co-operatives, from informal voluntary groups to industrial and provident societies – but there was an emerging, shared, focus. The new mutuals worked to benefit the community. They sought the genuine participation of local people. And they aimed, from this work, to earn an income, or at least cover their costs.

In their 1998 Demos report *To Our Mutual Advantage*, Ian Christie and Charlie Leadbeater highlighted the remarkable upsurge in such social enterprises – credit unions, social firms, housing co-operatives, fair-trade and ecological enterprises, managed workspaces, farmers’ markets, recycling initiatives, employment services, community shops, arts ventures, social care co-operatives and time banks. Research for the New Economics Foundation suggests that over the last year these social enterprises have grown by 9%, an astonishing rate of growth for organisations focusing on the most disadvantaged areas of the country.

Intermediate labour markets, for example, providing opportunities for long-term unemployed people, are doubling in number every twelve months. Care and worker co-operatives have increased by 52% over the last year. Tenant-owned housing organisations have increased by a
third as they take over local authority housing stock. A new generation of community banks, such as the London Rebuilding Society, have meanwhile emerged to finance the new community-based social enterprises.

These models are not restricted to the voluntary and community sector, however. As the next chapter shows, the new mutuality has also been stirring at the heart of the public sector, in a series of experiments and initiatives that have attracted little publicity but could yet signal a revolution.
3 Pioneering a New Model

Many public institutions could not be mistaken for anything else. Whether it’s a school, a prison, a residential care home or a town hall, the DNA of state power and paternalism is “imprinted” in the architecture – the design and layout of the building reflects the centralised, “top-down” philosophy that has held sway in our politics and public services. If we want to try a new philosophy, shouldn’t we rethink the way we make our buildings?

At Kingsdale school in South London, locker space has long been a concern for children. It’s partly a practical issue. Corridors in the school are narrow and as children poured out from lessons at the same time, bottlenecks were a place for disruption, even fights. But lockers also represent the children’s space, their stake in the school.

As this pocketbook went to press, Kingsdale was going through a £9 million building programme and the children were helping redesign it. The process has been complex and experimental. In participatory workshops, children and staff were able to say what they wanted from a school building and contribute to initial design work. Ten children and two teachers have formed a group nicknamed the “maverick explorers”. Their task over the summer term of 2001 was to
collect the baseline data for the evaluation before building works start. As a “headline indicator” of how well the new building performs, they have chosen the “sense of welcome” the school gives to children, parents, teachers and visitors.

Kingsdale has been a “problem” school – it was until recently on special measures, held on probation by the education authorities. Redesign, it was hoped, would resolve conflicts, improve the school’s collective sense of wellbeing. But it has not been plain sailing. A participatory approach can deliver a culture shock to any institution, as those previously without power flex their new political muscles and those with power decide whether they can “let go”. At Kingsdale we don’t yet know how it will work, or indeed whether it will work.

From user to partner

In other places we are on surer ground. There is a growing portfolio of case studies testifying to the enormous potential of engaging users of public services directly in the public services they use. In what Edgar Cahn, a US pioneer of public participation, describes as “co-production”, users are affirmed as partners: they have their own skills and value. And although genuine participation takes time, effort and resources, there is no doubt – indeed, there is ample and growing evidence – that it contributes to improved morale and trust and, perhaps more important, to the renewal of institutions. It also demonstrates that it is possible to
increase mutuality without going the full step to citizen ownership.

Across London from Kingsdale, Ealing Community Transport is an example of what can be achieved with a full mutual model, in which the enterprise is governed and run by and for its members. It started life in 1979 when social services in Ealing Borough Council were deciding how to organise transport for clients. Initially it was set up as a voluntary organisation, with an “endowment” of four buses from the council. The team proved successful at winning contracts from the social services department, and the following year reconstituted itself as a mutual industrial and provident society. One of its first steps was to finance the purchase of four new buses.

In 1996 it set up ECT Recycling, which now offers a diverse range of recycling services, including the first ever paint exchange scheme. From a small non-profit start, ECT has since diversified into a group comprising four separate companies, employing over 200 staff and providing recycling and community transport services for eight local authorities – six in London and two outside. It is the national pioneer in kerbside recycling and provides direct services to over 425,000 households. Its current group turnover of £13 million is increasing at over 20 per cent per year.

Ealing Community Transport has not only led the way in service quality and user involvement; it has demonstrated how freeing up public services can lead to real innovation. It
is an example of the entrepreneurial culture shift envisaged by advocates of privatisation. Yet the shift has taken place within the context of the social ownership so fundamental to public services and the trust of citizens.

Something similar has occurred in Greenwich, where Greenwich Leisure was converted from a local authority department into a social enterprise in order to escape the financial constraints imposed on local authorities. The result was a highly successful enterprise, which has increased the number of leisure facilities in Greenwich from seven to eleven and trebled income in the last six years to over £9 million. At the same time it has more than halved the cost to the local authority for providing the service – and incidentally won quality marks under Investors in People, Charter Mark and ISO 9002.

**Freeing staff**

One of the keys to Greenwich Leisure’s success is structure. The creation of a separate enterprise, where staff (now numbering 1,000) have a say in governance through a co-operative structure, has freed them up to act more entrepreneurially: it has given them a direct stake in its success. As one staff member, John, a friendly face that greets you when entering the Arches Leisure Centre in Trafalgar Road, Greenwich, puts it “Things were going downhill before we took it over. It makes a huge difference now to have a strong say.” He has been with Greenwich Leisure from the beginning.
And the Greenwich model is being applied – and refined – across the country. Greenwich Leisure has itself taken over the management of five centres for the London Borough of Waltham Forest. It has also helped to replicate itself in 13 other local authority areas, from Bristol to Teesside. And although the “Mark 1” version of the model placed a premium on staff empowerment, user involvement is now being examined. According to Margaret Nolan, who has set up with other mums in Sunderland one of the country’s most successful childcare mutuals, “the ethos of mutuality is like a virus. It gets into your blood and you can never forget it.”

What lessons can we learn from these examples? One is about how and why businesses succeed. Rather than focusing simply on short-term funding, social enterprises can aim to build a long-term business with a clear focus on the good of their community. In many cases, they have saved money for the public sector, because they are able to generate increased income and raise private finance, including grants and social investment. They have also created an asset for the benefit of their communities. Community Links in Newham, for example, points out that around 80% of its workforce first came into contact with the organisation as users.

There are many more where these came from. Working with the Institute of Development Studies in Brighton, NEF has identified 69 examples from around the world, each offering ways of bringing the voices of citizens and a focus on clients into the delivery of public services. Examples include:
In India, social entrepreneur Samuel Paul has developed ‘report cards’ in which citizens monitor public services such as transport and waste. Service quality has improved and civil servants treat the results of report cards with respect.

In Bolivia, a Law of Popular Participation sets up vigilance committees to scrutinise local elected bodies, with the power to instigate investigation. This is a way of using citizens to do what the UK’s 750 strong National Audit Office does.

Canada and the USA have experimented with citizen panels charged with deciding who gets what healthcare. In Oregon, a citizens’ commission has done the contentious work of ranking 1600 condition-treatments.

In Denmark, local services from planning and traffic through to elderly care and schools have been transferred from the state to local boards made up of consumer representatives. Government sets the funding and the boards take all decisions on management, personnel and policy.

Childcare mutuals in Sweden allow staff more control over decision-making and parents more opportunities for involvement. Not surprisingly, parents overwhelmingly prefer the co-ops to local authority centres.

Such examples show that the UK can learn from abroad, even from the poorest countries. They also indicate the many
different ways for citizens to be involved and the many
different degrees of participation. But simply trying many of
these *ad hoc*, or maximizing citizen participation as an end in
itself, is no help. The point is that we can reinvent public
services by opening them up to the energy and imagination of
key stakeholders. The big prize of democratic and
institutional renewal in public services won’t happen by itself.
It won’t happen by the heroic but scattered experimentation
of pioneers. To come close, the government now needs to do
something that it has signally failed to do so far, which is to
develop a systematic policy framework to remove the barriers
and to let mutuality work.
4 Participation, Decentralisation, Professionalism

The mutualisation of public services means that, to a significant extent, ownership and accountability passes from Whitehall to the direct stakeholders of public services – typically users, staff and, in some way, the broader stakeholders of the local community.

Central directives are not the way to launch a broad-based mutuality programme. Two things are needed – a licence and a stimulus for development. We have to develop new practical models; we must also harness innovation to sift out ideas that work. In the process the “new mutuality” would be refined as a practical and distinctive approach to improving the quality of public services. How can we set about this task?

Auditing participation

The quality of participation varies widely across public services. Youth courts, for example, achieve a narrow goal of delivering justice but fail to engage with youth offenders in ways that would be likely to encourage a rethink about
crime. Voluntary organisations, not the state, have been the pioneers of restorative justice systems for young offenders, showing how to cut re-offending rates. Sanctions imposed by peers or local people have more effect than those imposed by a distant authority. More positively, initiatives like patients’ forums and police liaison groups have helped public servants to consult local citizens. And in a more significant way, the New Deal for Communities enables local community partnerships to manage multi-million pound resources and oversee a wide range of local services. In Scotland, residents now run housing programmes with a budget of half a billion pounds.

As a first step, therefore, we need to assess how good we are as a society, and a state, in securing genuine participation. We need, in other words, a participation audit, to draw out the lessons from existing community involvement and act as a focus for best practice in the future. The audit should also point to a range of relatively simple innovations, such as elections to hospital trusts, children’s participation on school boards, user panels for local authority services and designating individual, named, policemen as contacts for streets or neighbourhoods. To manage the audit, we believe a new community participation unit should be set up as part of the Office for Public Service Reform in the Cabinet Office. The audit should be its first act: but the unit’s job, more broadly, would be to improve the quality of relationships with users – particularly the key relationship of trust – throughout the public services.
Decentralisation

The emergence of regional development agencies and national assemblies has meant a welcome shift towards decentralisation. However, decentralisation at local level has often been stymied by Whitehall’s distrust of local authorities.

A mutuality agenda would enable local authorities to respond better to citizens’ needs. To an extent, this is already happening. The 1999 Local Government Act places a legal duty on local authorities to consult with stakeholders. Redcar and Cleveland Borough Council and Bradford Town Council have both set up panels of users to help improve services, for example. But to make mutuality work properly, we need to rethink the delivery of local services.

One step should involve the recasting of local authorities as smaller, strategic units. These new slimmed-down, “smarter” councils would oversee the co-ordination and accountability of local services – using their powers to “build capacity” for public workers and citizens, enabling them to run services mutually. Liverpool is one example of an authority opening up to mutualisation. By franchising part of its refuse services to a non-profit social enterprise called Bulky Bob’s, Mike Storey, leader of the Council, argues they have achieved a double benefit. “Residents” he says “get a much improved and reliable collection service, while Bulky Bob’s takes up unemployed people and gives them jobs in collecting, sorting, recycling and selling.”
Taken more widely, the trend towards partnerships with local voluntary organisations and faith centres would accelerate: they are often engaged in the same areas of service anyway.

Churches support 50% of informal youth work in the UK, for example through youth clubs, but only 10% of formal youth work, which is dominated by local authority funding. The Reverend Richard Bentley, whose church on the Bransholme Estate in Hull runs a breakfast club, a homework club and is developing a literacy programme, argues that “we live on the estate. The teachers don’t, the social workers don’t and the policy makers certainly don’t. We live here so we know the problems.”

Of course, closer partnerships between the public sector and groups like charities, churches and mosques are likely to lead to a culture clash. One in five churches report that they feel discriminated against by local authorities. Even so, a remarkable nine out of ten said that they would set up services for local benefit if the public sector gave backing support. So getting beyond the culture clash is likely to bring real benefits. The Government is, for examples, now backing the target set by Lord Dearing in his review for Anglican churches to establish 100 new faith-based schools. No less significantly, it looks likely to flex the traditional rules on capital investment to make that happen.

Such schools, or similar initiatives in other parts of the public sector, will need another ingredient if they are to be entrepreneurial and successful innovations. They need
decentralisation. This means increasing the degree of autonomy – more direct funding, greater freedom of financial management – within a framework which sets down standards on quality and equal opportunity. A pilot of this approach is in employment advice. Working Links, pioneered in employment zones, have refreshed the tired and failing traditional public service model of employment centres. But another government zone, the education action zone, has signally failed. The ingredients identified so far, of partnership and decentralisation, are present, as is much of the right language, of “social capital” and so on. But rather than treat parental involvement as an opportunity, education professionals have typically cast parents as the problem, lacking the skills or values needed for educating their children.

So hand in hand with decentralisation we also need a new professionalism for the public services that is based on empowerment and inclusion. It is not hard for paid experts to pick up a degree of conceit. It is hard, but ultimately more rewarding, to learn how to share knowledge, occasionally to let go of control and to enable the participation of users. This changes the frame of reference for public servants from one-way “delivery”, as if public services were a crate of milk, to the creation of a two-way relationship with users. An understanding of the new professionalism needs to be built into the training and standards set by bodies such as the General Medical Council, the National Institute for Clinical Excellence, OFSTED, the Prison Inspectorate and the Social Care Institute for Excellence.
Recognised status

The clearest way to foster a new mutuality, we believe, would be to reconstitute public services as self-governing social enterprises. A social enterprise is not an arm of government: it is an independent model outside the traditional public sector. Typically it is led by a social entrepreneur and is socially owned or accountable. It may make profits, but they are not for private benefit. They are reinvested socially, either in the service or the community.

Social enterprises draw on a variety of legal models. Primary health care groups can take several forms – health authority subcommittees, independent legal partnerships, non-profit limited companies, commercial joint ventures, charities or local patients’ associations. But the complexity and variety of legal structures hinders the start-up of mutuals – and, once started, hinders progress and governance.

Legal change can make this easier. The archaic law governing charities and industrial and provident societies must be overhauled. A new kind of Public Interest Corporation is needed to fill the gap in non-profit corporate forms. There must be limits on demutualisation for social enterprises running public services, perhaps following the model of Valencia, Spain which pioneered a new generation of mutual schools after the fall of Franco. This is to ensure that community resources are held in trust for future generations. We also need new powers to raise finance. The issue of local bonds, for example, enables citizens to become social investors, with a stake in the
improvement of local services beyond that of passive taxpayer. In Sheffield, the employment bond pioneered by Citylife has raised over £1 million for job creation from local people, including celebrities such as Michael Palin.

However, just as people know roughly what a public service is and what a private company is, there could be a new name or “brand” to give public recognition to social enterprises. Fair trade, for example, has become a recognized brand for products produced by workers treated equitably in developing countries. The Forest Stewardship Council, similarly, offers a certification check and a logo to go on sustainable wood products. In Italy, co-operatives and voluntary organisations are able to apply for a special social enterprise status, in this case with tax advantages. In the USA, public services can operate as public benefit corporations, with powers to raise finance. While loath to add to the charters and standards operating across the public sector, we do propose a Social Enterprise Quality Mark, assessed probably from outside of Whitehall and based on a public benefit mission, clear accountability to stakeholders and quality of performance. This may be a slow route to public recognition but once it is in place and working well, more can be done.

Converting services

How would the transformation, from state service to social enterprise, take place? One possibility is the “challenge” idea –
where the state backs a new initiative led by stakeholders. Charters schools in the US and elsewhere operate in this way and allow parents and other local stakeholders to set up new schools in failing areas. The US also allows existing services, such as hospitals, to convert into public benefit corporations. Conversion has proved so popular that public benefit corporations now employ around 10 million people. Hospitals are keen as the move allows them to issue revenue bonds, raising new social investment finance at no cost to the exchequer.

One important ingredient of the conversion process is a staff ballot. This would help prevent the weakening of employment conditions that has been a feature of so many privatisations. In the health care sector, where co-operatives are not required to produce dividends for shareholders, research shows that staff are better paid than in private sector homes. In cities such as Bristol and Brighton, trades unions have been active in promoting worker co-operatives as a successful alternative to privatisation. It could be argued that in many sectors, such as teaching, Whitehall has acted as a monopoly purchaser in holding salary levels down: converting schools to social enterprise status ought to improve pay and conditions. Either way, balloting is a way of ensuring that staff support the process.

State as guarantor

The changes envisaged amount to a significant shake-up of public services. Where would they leave the State? In effect, central government would be stripped of its management role
and left in the role of democratic guarantor, regulating and resourcing the new mutuals but otherwise not interfering in their operations.

In the same way that the Financial Services Authority oversees credit unions, for example, the state would supervise the operations of mutual service providers. Reporting and evaluation would operate differently, however. Currently prison and school inspections focus on upwards accountability to Whitehall – a method that corrodes the very local capacity the new mutuality is trying to develop. One of the benefits of mutuality would be the emergence of “horizontal accountability”, in which the immediate stakeholders – the local people and organisations who are in the best position to judge what is going on – hold public service organisations to account. The role of the National Audit Office would shift from straightforward inspection to enabling – providing the knowledge and capacity that would equip stakeholders to “self-audit”.

Tax funding for the new mutuals would be supplemented by social investment from citizens. In the US, South Shore Bank has raised over one billion dollars in social investment to renovate one of the poorest parts of Chicago. In the UK, the Prince’s Trust is a remarkable example of how a stable funding regime is financed by social outcomes. The government pays the trust £2,500 for each unemployed person started in business and still trading after 15 months. Government is thus able to harness the innovation, flexibility and client focus of a voluntary body without drawing it into
the kind of destructive bureaucratic contracting or bidding regime favoured by civil servants.

The new generation of mutuals will need to be root-fed – patiently, methodically, with the right mixture of nutrients. As the Sure Start programme has shown, developing the capacity in communities to assume governance and management roles takes time. It also takes an investment of resources to reduce the barriers to participation and increase the payoff. But there will also, as with existing services, be a need to provide emergency cover for failure. The best way of doing this would be via a service guarantee fund – an insurance system to fund last-resort intervention – to which all social enterprises and private contractors would contribute.

Yet there is no reason to expect failure; indeed there is every reason to expect the opposite. Not a single penny of savers money was ever lost by building societies, a record far better than that of both private banks and national state banks. Where mutuality has been tried in other countries, such as in the health sector in Japan and the water sector in the USA, it outperforms the private sector on financial and social outcomes. So a new mutuality can be the first best solution, combining the entrepreneurialism of the private sector and the ethos of the public sector. Clearly it won’t be in every situation, but it will if applied with thought and preparation.
It’s worth starting this chapter with what sounds like a quiz question. Which network of citizens’ mutuals has 120,000 constituent bodies, covers six million homes and is acknowledged to have been an effective and powerful force in crime prevention for the best part of two decades?

The success of neighbourhood watch shows that the transition to mutuality may not be as complex or as radical as one might imagine, nor need it involve a revolution in thinking. The police, after all, were quick to spot the potential of mutual aid to solve a common problem but are hardly in the forefront of social reform. The key word, perhaps, is pragmatism – mutuality, whether or not we are aware of it as such, has made striking advances in recent years, because people have come to realise it is often the best practical solution.

Some of the most positive examples are in health. The remarkable rise of self-help groups – there are now as many of these per thousand adults as there are doctors – is a reminder that a nation’s health is not primarily delivered by a state service that cares for us when we are sick. Through education, nutrition or exercise we can take responsibility for our own health.
Social enterprises on the edge of the NHS have also proved highly innovative. As Iain Duncan Smith argued on public service reform in the Tory leadership race, it is hospices that have led the way in patient-focused health care. St. Anthony’s Hospice in Surrey, for example, which cared for the father of one of the authors of this pocketbook, John Mayo, before he died funds hospice care from separate private health provision and from money raised from local church investors. Hospital leagues of friends raise around £6m each year in London alone – despite the red tape that makes it laborious and complex for citizens to invest money in hospitals and schools. General practitioner co-ops which organise out-of-hours cover show how the techniques of mutualism can be valuable, even if services are still controlled by professionals.

These and other examples give an idea of the role a greatly expanded mutual sector could play. Public service failure is an obvious starting point. West Walker primary school in Newcastle, once close to collapse, has been “rescued” through participation, with parents and the wider local community pulling out all the stops to help turn it round. The school now boasts an adult education centre, a lively cafe and a nature garden, built of course by the children and parents.

There is more scope for participation where long-term relationships are involved – parents with schools, for example (350,000 parents are school governors). Mutuality also works best at small scale. Although there is a case for the mutualisation of quangos, the benefits of mutualising big
institutions such as Railtrack and the BBC are more limited. It is useful to note, though, that the final agreed solution for National Air Traffic Control, the most controversial privatisation of Labour’s first term, is a hybrid model, part non-profit and part mutual. Similarly the new Welsh water company approved by the regulators, Glas Cymru, is a non-profit mutual. However, the best idea would be to focus on a smaller scale, where mutuality has been well tested, with organisations of up to 400-600 people – for example, a school or a hospital.

It’s quite possible, however, that we could see an MHS (Mutual Health Service) slowly subverting and replacing the NHS. The Institute of Directors argues that the National Health Service should be “demerged” into more manageable units and that these should be established as self-governing mutuals. Professor John Kay, of Oxford University, similarly argues that hospitals could become mutuals. They would perform better and be more responsive than profit-seeking private-sector solutions which would exploit the fact that the service is a local monopoly, with the whole community dependent on it.

Much depends on the nature of the service. In technically complex areas, such as health, citizens probably won’t be engaged directly in service planning. Suitably trained, however, they ought at least to have a role in overseeing the design and delivery of services – not least because it is precisely here that the effort to make services more client-focused has often foundered on a combination of power,
expertise and vested professional interests. Low-tech services – preventative health care, primary care, disability services, pre-school education – are far more fertile terrain. People can engage more easily; officials are more open to co-producing services with users. And there is clearly more scope for mutuality and participation where services are consumed individually (such as housing) as opposed to collectively (such as environmental health regulation).

**Genuinely public services**

This is not, however, a proposal to mutualise everything. Nor is it a matter of simply breaking up leviathan institutions of state. The ground needs to be laid with care.

Housing, for example, currently offers many examples of how not to do it. With 200,000 homes transferring in a single year from local authorities to registered social landlords and new social housing companies, accountability is suffering. The public sector offers accountability to government; housing co-operatives offer accountability downwards to tenants. The worst solution is to pass control of housing to bodies that are accountable to neither. In fact, tenant-owned or managed housing has the best record on service quality. In many other European countries, and especially in Scandinavia, is strengths are well recognised. Sadly, with one or two exceptions, it has been sidelined by Whitehall and the Housing Corporation.
To a degree, one can sympathise with government. Local education authorities (LEAs) have come in for severe criticism over recent years, but ministers have been unwilling to abolish them for fear that Whitehall would be obliged to manage thousands of schools across the country. A far better alternative is to reform LEAs so that they become “secondary mutuals” – the “primary” mutuals being the schools themselves. Instead of existing to implement central directives, the LEAs would be more clearly identified as service organisations, held to account by those they serve, including local stakeholders, and negotiating with central government on behalf of schools.

No one would argue that every citizen or indeed voluntary organisation wants to get involved in running or shaping a public service. Those who want to can step forward. Equally, the scope for increasing genuine democratic engagement should not be underestimated. In Oxfordshire the 30 pilot youth offending panels, which train local residents to set appropriate punishments for youth offenders as an alternative to youth courts, have found themselves tapping into a groundswell of public interest and volunteering. Time banking, pioneered in the UK by the New Economics Foundation, has shown what can be achieved through social reciprocity – getting something back in return for helping the community. In Watford older residents earn time “credits” for monitoring council cleaning and waste and recycling services, and for reporting dog fouling, litter and abandoned shopping trolleys – these credits can then be “cashed in” for services they need or
The New Mutualism in Practice

want to donate to friends or neighbours at the local time bank.

Such involvement by citizens often works simply because of the relationships involved. Local school children conducted a crime survey in Merthyr Tydfil in 1996, which the police recognised to be more reliable than their local records because people were prepared to tell them the truth! Similarly what makes for good health or social services is the relationship and quality of interaction between user and provider. This is not something that you can set out in contracts. So if you are going to contract out, organisations that work in a participative or “mission driven” way offer the best guarantee of quality.

In one sense, therefore, the “hitlist” for mutualisation suggests itself. There are undoubtedly certain public services where investment in a patient programme of fostering participatory, self-governing social enterprises would reap dividends. The list would start with health, primary and secondary education, care for the elderly and for children and move on to employment advice, parks and libraries, leisure, recycling, housing, youth justice and regeneration partnerships.

If such a programme was realised, the payback to society could – and, we believe, would – be enormous, putting the “public” back into public service in a way that the architects of the welfare state would surely have applauded. We are not talking about an overnight revolution. But once started, it would generate its own momentum. A new generation of social
entrepreneurs would begin to develop pathfinding mutual models or franchises right across the public sector, from universities to childcare, from culture to transport. The new mutuals would become an increasingly significant component in the emerging mixed economy of public service delivery.

At best, this could produce a paradigm shift in the way good public services are conceived and delivered. Participation is the key to this – helping people feel they have a relationship with, and an influence over, the public services they pay for through taxation. When the great institutions of the welfare state were swept in – the National Health Service, pensions and national insurance – non-profit organisations, despite pioneering much of the work, came to be seen as yesterday’s solution. The state, meanwhile, underwent a kind of rebirth: suddenly it was the best way to embody the all-important principles of self-help, integrity and mutual obligation. The “reinvention” of mutual service delivery would complete the circle, helping to fulfil the same principles but in a way that meets the needs of a much-changed society. It would, we believe, save public ownership by restoring a sense of what it really means.
The last two decades have seen a battle for the control of public services.

On the one hand was the post-war tradition of state-owned, state-run services. On the other was privatisation, the idea that monopoly public services should be subject to market forces. The battle has yet to be resolved but it is clear that without fresh inspiration or ideas, the welfare state could face death by a thousand cuts.

Mutuality can re-energise public services. It is an ancient way of getting things done, predating the modern public, private and charitable sectors in Britain by almost a thousand years. It involves running organisations with the close co-operation or control of key stakeholders. Involving users in the delivery of public services makes them more efficient and responsive. It also offers, at a time of political disengagement, the prospect of a wide-ranging and participatory civic renewal.

There are now many examples of successful mutuality, in health, housing, education, leisure, transport, social services and environmental work. The last two decades have seen a remarkable upsurge in social businesses, from credit unions...
and housing co-operatives to farmers’ markets, community shops, and time banks. Over the last year such businesses have grown by 9%, even though they focus on the most disadvantaged areas of the country. Social enterprises succeed because they build a long-term business with a clear focus on the good of their community. Their mutuality is about participation rather than a narrow model of co-operative ownership. They save money for the public sector because they are able to generate increased income and raise private finance, including grants and social investment.

Five key elements should form part of the “mutualisation” of public services:

- **A participation audit.** This would look at the lessons from community involvement and draw up guidelines for the future. New initiatives could include elections to hospital trusts, children’s participation on school boards, user panels for local authority services and designating individual, named, policemen as contacts for streets or neighbourhoods. The audit would be managed by a community participation unit set up as part of the Office for Public Service Reform in the Cabinet Office. The unit’s role would be to improve the quality of relationships with users in public services.

- **Decentralisation.** Local authorities should be recast as smaller, strategic units, overseeing the co-ordination and accountability of local services. They would use their powers to “build capacity” for public workers and
citizens, enabling them to run services mutually. Public institutions such as schools and prisons should be given greater autonomy – more direct funding, greater freedom of financial management – within a framework which sets down standards on quality.

- **A recognised status for mutuals.** This would mean creating a clearer and stronger legal framework for “social enterprises, including limits on demutualisation and new powers to raise finance such as local bonds, and a quality mark”, which sets out ways of involving stakeholders and ensuring accountability. In Italy, social enterprises of this form have grown in number by 40% since a new status was launched.

- **Conversion of public services.** Selected state services should “migrate” to the new mutual status through a recognised approval process. One important ingredient of this is a staff ballot.

- **Re-imagining the state.** The state would act as guarantor, funding and regulating the mutual service providers. The National Audit Office role would shift from straightforward inspection to enabling – equipping stakeholders with the skills to “self-audit”. Tax funding for the new mutuals would be supplemented by social investment from citizens.

A practical programme of mutualisation could start with public services or institutions that have clearly failed. It
would focus on smaller-scale organisations such as schools or hospitals, with “populations” of 400–600 people. The National Health Service (NHS) could be “demerged” into a MHS (Mutual Health Service) built on smaller, manageable run as self-governing mutuals. The exceptional record of tenant-owned or managed housing should be recognised. Local education authorities should be reformed as “secondary mutuals”.

The priorities for mutualisation are: health, primary and secondary education, care for the elderly, childcare, employment advice, parks and libraries, leisure, recycling, housing, youth justice and regeneration partnerships.
The Debate Moves Forward

Do you have comments on what you have just read?

● Will users want to participate, and will public services want those that do?

● What would a Mutual Health Service really look like?

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Half a century after the foundation of the welfare state, public services face a crisis of identity. Governments – both Labour and Conservative – talk increasingly of market forces and privatisation. State control is seen as synonymous with bureaucracy. Users are in many cases voting with their feet – opting out of state system, flocking to private health or education providers and forcing a new nervousness amongst politicians about pledges to raise taxes for the common good.

Is there another way? In this fifth NEF pocketbook, Ed Mayo and Henrietta Moore argue that we need to recreate an old tradition to meet new challenges. The tradition is mutualism – a system of small-scale self-help that was running successful social services a thousand years before the birth of the NHS – and the challenge is embodied in the new debates on participation, stakeholding and the Third Way. As the authors show, many people have already responded to this challenge: mutualism is alive and well in the twenty-first century. And because it gives people the chance, as citizens, to engage democratically, it holds out the prospect not merely of better, more user-friendly services but of a broad-based renewal of civil society.

Ed Mayo is Executive Director of the New Economics Foundation. He is on the boards of the Local Investment Fund, AccountAbility, Social Investment Forum and www.oneworld.net and is Chair of the London Rebuilding Society. He has advised the Treasury on enterprise.

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