Hiving off public services - what works, what fails, and how to choose a delivery vehicle

A sub-study for the local-government-finance worked product (Problem Register entry 1). It asks an even-handed, evidence-led question: when a public service is handed to an independent or private body to run, does it work? And it offers a framework for matching the kind of body to the kind of service. It does not recommend a structure for any service - that allocation choice is routed to the public; it sets out the evidence and a way of reasoning about it.

Discussion draft · version 1.0 · June 2026. Prepared under *The Pragma Method*. This is a stand-alone piece: it can be read without the rest of the council-finance product, though it underpins the product's foundational question - *what councils are for, and how their services should be delivered*. It is presented for development and public deliberation, not as a finished position.

How to read the evidence grades. Each substantive claim in this document carries a letter grade that tells you how strong the evidence behind it is. The four grades are: **A** robust / audited - an audited account, an official statistic, or a finding by the National Audit Office (Parliament's spending watchdog) or by Parliament itself; **B** strong - a large official dataset or a credible study that compares closely matched groups; **C** single source, observational, or advocacy-tinged - one estimate, a hand-picked example, or a body reporting on its own policy; **D** weak or absent - no agreed primary figure, with interested-party claims carried only to mark the edge of what is known. In short: A is strong and independently checked, and the grades get weaker as you go down to D. Every substantive claim carries a grade. Full citations are in the Evidence Annex; the graded provenance for this sub-study is in `data_hiveoff/SOURCES.md`.

One honesty guard, stated once and held throughout. This field is **case-study-rich and trial-poor**: there is plenty of anecdote but very little controlled testing. There are almost no randomised controlled trials (the gold-standard experiment for proving cause and effect) in which the *same* service is delivered through different kinds of body and the outcomes compared. The strongest evidence here is the **failure** evidence - audited accounts, inquiries by the National Audit Office and by Parliament, and regulators' rulings - which is more solid in its method than most of the **positive** model claims, many of which come from bodies promoting their own approach. That imbalance is itself a finding, and it is flagged wherever it bears on a verdict. A weak grade is never hidden to make a cleaner story.

Executive summary

Across four decades, British governments have reached repeatedly for the same move: take a public service out of direct public hands and give it to an independent or private body to run - schools handed to multi-academy trusts (groups of state schools run by a single independent charitable organisation rather than by the council), hospitals and schools built and maintained under the Private Finance Initiative (a scheme in which private companies build and run public assets such as hospitals, with the taxpayer paying them back over decades), and the water industry sold to private companies. Each time, the move was sold with the same three promises: **liberation from bureaucracy**, the spread of **best practice**, and **economies of scale** (savings that come from being bigger).

This sub-study assesses that move on the evidence, even-handedly - and the honest verdict is neither the cheerleader's nor the campaigner's. The move sometimes worked and often fell short, and *which* it did turns out to depend very little on whether the body was public or private. The clearest finding across all three cases is this: **the legal form of the body is a weak lever; the quality of the operator running the service is the strong one.** A capable, well-governed body delivers well in almost any form; an incapable or poorly-watched one delivers badly in almost any form. What reliably *does* go wrong when a service is hived off (handed out to a separate body) is not "privatisation" as such - it is **distance created without matching governance**: a gap in accountability opens up, information stops being public, and value leaks out (as dividends to shareholders, as a higher cost of borrowing, or as high executive pay) faster than the saving the move was meant to deliver.

From that, the sub-study draws a practical framework. It sets out the menu of delivery vehicles (the different kinds of body that can run a service) - from a service run directly in-house, through arm's-length companies and independent trusts, to regulated private monopolies and member-owned mutuals - and a **matching principle**: which kind of body gives the best combination of value *and* adequate accountability for which kind of service. It identifies **three conditions** that separate the hive-offs that worked from those that did not: surpluses reinvested rather than taken out; a retained line of democratic or regulatory oversight; and genuine governance competence. And it reviews the proven alternative models - municipal companies (companies owned by local government), the not-for-profit monopoly, public-service mutuals (services owned by their own staff), and cooperative councils - at honest grades, several of them weak.

None of this tells a council *which* way to run a given service. That is a value choice - local accountability and responsiveness weighed against national fairness and a single common standard - and it is routed to the public in the main product. What this sub-study supplies is the evidence and the reasoning, so that whoever decides, decides with eyes open.

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1. The recurring move

It is one of the most familiar manoeuvres in British public administration. A service is judged to be underperforming, or expensive, or stuck and slow-moving, and the proposed remedy is to move it out of direct public control into an independent or private body that - it is argued - will run it better. The kind of body changes with the decade and the sector, but the pitch is remarkably constant. Three claims recur almost word for word:

- **Liberation from bureaucracy.** Freed from the town hall or the government department, the new body can move faster, hire and pay flexibly, and innovate without having to ask permission.
- **Best practice.** Specialist operators, or the disciplines of the private sector, will bring sharper management than a general-purpose public body can.
- **Economies of scale.** Combining provision into one larger body spreads its fixed costs across more activity and lets it buy supplies more cheaply.

Three large real-world experiments let us test those claims, because each took a previously public service and handed it, on a large scale, to an independent or private body:

- **Academies and multi-academy trusts** removed schools from council control and placed them with independent charitable organisations (an "academy" is a state school funded directly by central government rather than the council; a "multi-academy trust" is a single organisation that runs several such schools).

- **The Private Finance Initiative (PFI)** had private consortia (groups of companies acting together) design, build, finance and run public assets - hospitals, schools, roads, prisons - under long contracts, with the public sector paying an annual charge instead of borrowing the money to build them itself.
- **Water privatisation** sold the regional water and sewerage monopolies of England and Wales outright to private companies in 1989.

Each is examined below on its own evidence, naming what genuinely worked as carefully as what fell short - because a verdict that only lists failures is not even-handed, and an even-handed verdict is the only kind the Method will stand behind. The point is not to be for or against hiving-off in the abstract. It is to find the *pattern*: under what conditions the move delivered, and under what conditions it did not.

2. The evidence, case by case

2.1 Academies and multi-academy trusts

The pivotal finding is that the structure itself is close to neutral on average. The analysis by the Education Policy Institute (an independent education research body) is the load-bearing piece of evidence: the differences in school performance *between individual schools within the same multi-academy trust*, and *between individual schools within the same council*, are far larger than any average difference between trust-run and council-run schools as categories (Grade B). In other words, "trust" versus "council" tells you very little; the spread inside each group is what dominates. Academy trusts are found among both the best and the worst performers in greater numbers than their share would suggest. In plain terms: converting a school to an academy does not, on its own, reliably make it better or worse. Whether children do well depends overwhelmingly on the quality of the particular operator, not on the legal form of the body that runs the school. This is the single most important fact in the whole hive-off debate, because it is the cleanest available real-world experiment, and it points straight at the recurring theme of this study - the operator, not the structure, is decisive.

What genuinely worked. Two things stand out, and the negative verdict elsewhere is only credible because these are stated plainly.

- **The early sponsored academies.** Before 2010, the academies programme targeted *failing* schools, took them over, and put in new leadership, new governance and new building investment. These showed real gains - on the order of one GCSE grade (one grade in the exams pupils sit at age 16) improvement across five subjects, growing the longer a pupil was enrolled (Grade B). This was a genuine turnaround model: a struggling school, a capable new operator, fresh investment.
- **The best trusts transform disadvantaged outcomes.** A minority of academy trusts clearly do better than the schools they took on did before, often with intakes of pupils facing more difficulty. The **Harris Federation** (a large London-based multi-academy trust) is the standout - it tops the progress tables for multi-academy trusts despite taking on schools previously rated inadequate (Grade B). Ark, United Learning, Star and City of London (all multi-academy trusts) are also strong (Grade B). The common factors are a capable operator, high expectations applied consistently, and **geographic density** - trusts whose schools are clustered close together can share staff and leadership.

What fell short. The picture darkens markedly away from those cases.

- **Converter academies show little or no effect.** When the programme expanded after 2010 to let *already-good* schools convert voluntarily (so-called "converter" academies), the benefit of the change in structure largely disappeared - these converters show little measurable improvement that can be put down to the change (Grade B). The gains from schools taken over after 2010 also faded compared with the earlier group (Grade B).
- **The cost was substantial.** The Department for Education spent roughly **£745 million** on conversions since 2010-11, plus more than **£16 million re-brokering** trusts that failed - that is, transferring their schools to other trusts (Grade A, source: the National Audit Office, Parliament's spending watchdog). Executive pay drifted upward, and there are named cases of related-party transactions (deals done with companies connected to the trust's own insiders) and outright fraud - Wakefield City Academies Trust, Kings Science Academy and Bright Tribe among them (Grade A *for the named cases* - but these are specific instances, **not** a measured rate of fraud across the whole sector, and must not be read as one).
- **Accountability and fairness gaps opened.** Concerns about off-rolling (quietly removing difficult pupils before exams), about support for pupils with special educational needs, and about the loss of a local elected body able to take a whole-system view are real and were raised by the Public Accounts Committee (the cross-party group of Members of Parliament who scrutinise public spending) (Grade A *that the concern was raised*). But pinning these problems *specifically and causally* on academy status - rather than on wider pressures affecting all schools - is not well established (Grade C/D, flagged). One particular way the structure can fail is the **"orphan" school**: a school that no trust is willing to take on, which can be left in limbo in a system that no longer has a council as a default provider of last resort.

Verdict on academies: contested, not "proven successful". The honest reading is that turning schools into academies *as a change of structure* did not reliably raise attainment; that the best trusts are excellent and the early sponsored model worked; that the bulk of later conversions had little effect at real cost; and that the move opened genuine gaps in accountability and oversight. Strong councils are, on the evidence, roughly as effective as strong trusts (Grade B), and the work of the Education Endowment Foundation (a charity that tests what improves school results) points to teaching quality, not the form of governance, as the real lever - though it has no direct evaluation of academy conversion itself, so that is an inference drawn from neighbouring evidence, not a direct measurement (Grade B, with the gap flagged). There are no randomised controlled trials (gold-standard experiments) here; the findings rest on matched comparisons and trend analysis, the strongest of which date from 2017-18 and would be strengthened by a 2022-26 refresh.

2.2 The Private Finance Initiative

The overall verdict from the auditors is poor value for money - but the precise charge matters, and the case is as much "not proven" as it is "proven costly". The Public Accounts Committee (the cross-party group of Members of Parliament who scrutinise public spending), reviewing the National Audit Office's work in 2018, put it with unusual bluntness: it was confident that the Private Finance Initiative costs more than ordinary public procurement, but *neither it nor the National Audit Office could find evidence of the benefit the government claimed in return* (Grade A). The deeper failure is a **failure of evidence**: across more than twenty-five years and hundreds of deals, the Treasury never systematically measured the benefits of the Private Finance Initiative. A policy was run at scale for a generation without measuring whether it delivered what it promised. That, more than any single number, is the charge against it.

The premium (the extra cost). Private Finance Initiative financing costs more than government borrowing because the private consortia borrow at higher interest rates than the state can, and must also pay a return to their shareholders. The National Audit Office put this financing premium at roughly **40% for schools and 70% for hospitals** above what equivalent government borrowing would have cost (Grade B - this isolates

the *financing* cost alone, not the whole value-for-money picture, which also depends on delivery and on which risks were genuinely passed across). The structure - roughly 90% borrowed money and 10% shareholder money, both more expensive than gilts (bonds the government issues when it borrows) - is the arithmetic source of the extra cost (Grade A, as a matter of arithmetic). The **long-term liability** is large: more than 700 deals, around £60 billion of asset value, commit the public sector to roughly **£199 billion** in future annual charges stretching into the 2040s (Grade A). Bringing all Private Finance Initiative deals onto the government's own books would, on an estimate by the Office for Budget Responsibility (the government's independent fiscal forecaster), have added around £35 billion, about 2.5% of GDP (the total annual output of the economy) - though that figure is from 2010 and is now out of date; the direction is robust, the precise number is not (Grade B).

Inflexibility, and risk that bounced back. Private Finance Initiative contracts run 25-30 years and are rigid; changes are expensive, and "soft" services (cleaning, catering, maintenance) were often charged at inflated prices. The collapse of **Carillion** (a large construction and services company) in 2018 made vivid the limit of "risk transfer": when the contractor that was supposedly carrying the risk fails, the risk bounces straight back to the taxpayer, who must keep the hospitals and schools running regardless - at a direct cost of around £148 million (Grade A). **PF2** (a 2012 relaunch of the Private Finance Initiative), the supposedly-reformed successor, kept the same 90/10 structure, did not fix the underlying problems, was barely used, and was abolished in the 2018 Budget.

What genuinely worked (the even-handed half). The Private Finance Initiative is not a pure cautionary tale, and saying so is what makes the criticism credible:

- **Construction discipline.** Private Finance Initiative projects ran late far less often than the ordinary public record - a National Audit Office study found only about 24% of Private Finance Initiative projects ran late, against a worse record for traditional procurement (Grade B). Fixing the price and the deadline with a private consortium that has to absorb any overrun imposed a discipline the public sector has historically struggled to impose on itself.
- **Real transfer of construction risk.** Where consortia genuinely absorbed cost overruns during the build, that transfer of risk was real, not just on paper.
- **The Ministry of Defence is the best sector-level case.** The Private Finance Initiative delivered value for money in 6 of 8 Ministry of Defence projects the National Audit Office examined (Grade B) - a reminder that the model can work where the asset is clearly specified and the risk genuinely sits with the private party.

The lesson the Private Finance Initiative carries into the framework. A private body *can* impose delivery discipline and absorb construction risk that the public sector finds hard to impose on itself - but it does so at a higher cost of money and 25-30 years of inflexibility, and the transfer of risk is only ever as real as the company's ability to stay solvent. The disciplined conclusion is not "never" but a set of tests: any such arrangement must work out the financing premium up front, name explicitly which risks genuinely pass across and which will bounce back, plan the full lifecycle through to the point where the asset is handed back, and never be adopted just to keep the cost off the government's books without measuring whether it actually delivers.

2.3 Water privatisation

The third case is examined in full in the sibling water product (`docs/water/Water_Evidence_Annex.md`); only the part that bears on *this* question is drawn out here. Water privatisation is the clearest case of the **loss of accountability and leaking of value** failure mode, because it handed out a **natural monopoly** - a service

where competition is impossible (you cannot choose a different set of pipes), so the competitive discipline that is supposed to justify private ownership simply does not exist.

The pattern, in summary: selling the regional monopolies to private companies handed public value to shareholders (on the order of £50 billion-plus in dividends since 1989) and loaded the companies with debt - Thames Water reaching some £14 billion-plus and the brink of collapse - while the regulator could force neither the financial sturdiness nor the environmental results the public expected (pollution incidents rose around 30% in 2024) (Grade B for the pattern). When the thing being handed out is a monopoly, there is no competitive pressure to stand in for the public accountability that was given up - only regulation, which on the evidence struggled to do the job.

The instructive contrast is the **not-for-profit monopoly alternative**: Glas Cymru / Welsh Water, a company limited by guarantee (a company with no shareholders to pay) that runs water services in Wales. Its advantage is **built into its structure** - no money leaking out as dividends, cheaper borrowing, and proven sturdiness (it returned over £440 million to customers and cut its debt from around 93% to 58% of the value of the business over two decades) (Grade C, single case). But - and this is the even-handed point that keeps the model honest - its day-to-day performance has been only *mixed*: the regulator rated it "lagging" on some of its 2023 commitments, and it has had among the highest bills and a weak environmental record in some years. The not-for-profit form removes the *value-extraction* problem by design, but it does **not** automatically deliver day-to-day excellence. Even the best alternative model is not a guarantee - only a change in where the money goes.

3. The pattern that emerges

Lay the three cases side by side and a consistent shape appears.

Where hive-offs over-promised, they failed in the same handful of ways:

- **Gaps in accountability.** Moving a service to an independent body took it out of a line of democratic or local oversight without always putting an equally strong line of regulatory oversight in its place. The orphan academy, the unaccountable water monopoly, the 30-year Private Finance Initiative contract no one can renegotiate - each is a place where the public lost sight of, and grip on, a service it still depends on and still pays for.
- **Loss of transparency.** Independent bodies are often *less* open than the public bodies they replaced - deals done with connected companies inside trusts, the commercial secrecy of Private Finance Initiative contracts, the complex financial arrangements inside water-company groups. Information that was once public stopped being so.
- **Value leaking out through the cost of money.** Private bodies borrow at higher rates than the state and must pay a return to shareholders. Unless the efficiency gain in running the service *exceeds* that extra cost, the move loses money overall - and the Private Finance Initiative's 40-70% financing premium, and water's dividend leakage on a monopoly, are cases where it did.
- **Risk that bounces back.** Transferring risk to a private company is only as real as that company's ability to stay solvent. Carillion's collapse and Thames Water's distress both show the supposedly-transferred risk returning to the public purse at the worst possible moment.

And the genuine exceptions - the cases that worked - share a different shape:

- The early **sponsored academies**: a failing service, a capable new operator, fresh investment, a real turnaround.

- The best **academy trusts** (the Harris Federation and its peers): excellent operators transforming the results of disadvantaged pupils through the quality of their management, not their legal form.
- **The Private Finance Initiative in the Ministry of Defence**, and in construction discipline generally: a clearly specified asset with a genuine, solvent transfer of risk.
- The **Glas Cymru** not-for-profit: a structural fix to value extraction on a monopoly, even with only mixed day-to-day performance.

The single sentence that reconciles both lists is this: **the legal form is a weak lever; the quality of the operator is decisive.** The good cases are good because of capable, well-governed operators and (where relevant) genuine investment and a real transfer of risk - not because of the legal form. The bad cases are bad because distance was created without the governance to match it - not because "private" is inherently worse than "public". The same evidence that refuses to crown hiving-off as a success refuses to condemn it as a uniform failure. It points instead at *conditions* (§5), and at *matching* the kind of body to the kind of service (§4).

4. The delivery-vehicle framework

If the legal form is a weak lever, it is not *no* lever - the form still decides where the money can go, how visible the operation is, and who can hold it to account. The practical question is therefore not "public or private?" but **which kind of body gives the best combination of value and accountability for this particular service?** This section sets out the menu and a principle for matching.

4.1 The menu of options

The different kinds of body sit on a spectrum, from the most closely-held-and-accountable to the most distant-and-commercial (Grade B, a framing from the Institute for Government - an independent think tank that studies how government works - at a plain-explainer level):

Kind of body	What it is	Accountability	Commercial freedom
Direct in-house provision	The council or government department runs the service itself	Highest - direct democratic line	Lowest
Arm's-length body / local-authority trading company (a company the council owns)	A council-owned company, run at arm's length but still council-owned	High - the council is the only shareholder	Moderate
Independent trust	A charitable or non-profit body, independent of the council (leisure trusts; academies)	Medium - governed by its own board, with a regulator watching over it	Moderate-high
Regulated private monopoly	A private company holding a monopoly, kept in check by a regulator (water companies, energy networks)	Low and indirect - only through the regulator	High
Mutual / cooperative	Owned by its members, staff or guarantee, with no outside shareholders (public-service mutuals; Glas Cymru, the no-shareholder water company)	Medium - governed by its members or stakeholders	Moderate

The options are not ranked; each suits some services and not others. The mistake the three case studies illustrate is choosing a body near the bottom of the accountability column for a service that needed one near the top.

4.2 The matching principle

The decision rule is to match the kind of body to the *characteristics of the service*. The evidence supports the following matches, graded honestly - and note that several rest on broad professional agreement rather than hard proof of cause and effect, which is flagged:

- **Natural monopoly** (water, networks - where competition is impossible). A not-for-profit or mutual monopoly, or a council-owned company, is preferable to a shareholder-owned regulated company, because money leaking out as dividends and companies being loaded with debt are the strongest negative findings in the whole body of evidence, and a monopoly offers no competitive pressure to offset them (Grade B for the negative finding on shareholder ownership; Grade C for the positive case for the alternative).
- **Open to competition, clearly specifiable, with plenty of suppliers** (where genuine competition for the contract exists and the service can be precisely defined). Contracting the service out *can* work - but only with a strong in-house team on the council's side to specify, monitor and enforce the contract; without that capability, an in-house team or a council-owned company is safer (Grade B).
- **Highly sensitive to accountability / determining people's rights** (child protection, legally-required social care - where the service determines people's fundamental rights and safety). Keep in-house, tightly held. This is a position of broad agreement more than a proven one - the evidence on cause and effect is thin - but the cost of getting it wrong is severe (Grade C, with the thinness flagged).

- **Savings from scale** (where bigger is genuinely cheaper). Combine into a shared service or larger body - but watch the risk of putting too much in one place and "too big to fail": Carillion and Capita (two large outsourcing companies) show the danger of a single supplier becoming indispensable (Grade C).
- **Local responsiveness** (where local knowledge and tailoring matter most). In-house, mutual, or cooperative-council models. This is the **weakest-evidenced** match - the case rests more on democratic legitimacy than on demonstrated gains in results (Grade D, flagged).

4.3 The move back toward in-house provision

It is worth recording that the recent direction of travel in local government has been **back** toward running services in-house ("insourcing"). A survey of 208 councils by APSE (the Association for Public Service Excellence, a body that supports council-run services) and the University of Liverpool found that **73% had started or were starting to bring services back in-house, and around 45% had completed doing so** (Grade C). The reasons councils gave were greater efficiency (around 64%), improved quality (around 60%), and democratic accountability. The favoured way of bringing services back in-house is the council-owned trading company - a company owned by the council that keeps the service inside democratic control while allowing some commercial flexibility.

This trend should be read with care. APSE is a body that promotes council-run services, so the survey leans in one direction and is graded C accordingly. But the *direction* - a meaningful swing back toward in-house and council-owned delivery after decades of contracting out - is backed up by the wider pattern, and fits the central finding: where the earlier contracting out created distance without an adequate in-house team on the council's side to manage it, bringing the service back closer is a sensible correction.

5. The three success conditions

Strip the cases down and the line between the hive-offs that worked and those that failed is not "private versus public". It is whether three conditions were met. Where all three held, the move tended to deliver; where one or more failed, it tended not to.

1. **Surpluses are reinvested, not taken out.** Where any operating surplus goes back into the service or to customers - as in the not-for-profit monopoly, the best academy trusts, and the council-owned company - the move can add value. Where surplus is taken out as dividends or inflated financing returns faster than efficiency is gained - as in water and in much of the Private Finance Initiative - the move loses value. This is the condition the legal form most directly controls.
2. **A line of democratic or regulatory oversight is kept.** The public must keep a way to see what the service is doing and to force change - whether through the council holding shares, a capable regulator, or performance figures published in the open. Where that line was kept (the council-owned company, the well-regulated trust), accountability survived the move; where it was cut (the orphan academy, the secretive water group, the Private Finance Initiative contract no one can renegotiate), it did not.
3. **Governance is genuinely competent.** Either the board of the independent body, or the council's own team managing the contract, must be capable enough to run the service or to hold it to account. The failures of council-owned trading companies at Nottingham, Bristol and Croydon are instructive precisely because those companies were *council-owned* - the failure was a lack of governance competence, not the public-versus-private question (Grade C). An incapable board sinks a public body as surely as a private one.

The unifying statement is therefore that **hive-offs fail on distance without matching governance - not on "private versus public".** A service can be moved a long way from direct public control and still succeed, *if*

the surpluses stay in, the line of oversight is kept, and the governance is competent. It can be kept entirely in public hands and still fail if the governance is poor. The structure sets the conditions; the operator and the governance determine the outcome.

6. Proven alternative models - with honest grades

If the question is "what works *instead* of shareholder-owned hive-off?", the evidence offers several models - but it offers them at very different levels of confidence, and the honest presentation grades them rather than lifting them all to a single uniform endorsement. The weak grades here are as much the finding as the strong ones.

- **German Stadtwerke (German municipal companies - companies owned by local government).** Over 900 council-owned companies in Germany deliver energy, water, transport and more, lasting well and operating commercially, often using the profits from their profitable activities to support socially valuable ones that lose money (Grade B-C). The model is real and long-established - but it is *specific to Germany*, embedded in a different legal and financing setting, and does not transfer automatically to England. A genuine model; not something you can simply drop in.
- **Glas Cymru / Welsh Water (a not-for-profit monopoly).** The structural advantage on a natural monopoly is real - no money leaking out as dividends, cheaper borrowing, and proven sturdiness (Grade C, single case). Day-to-day performance only mixed. The clearest UK evidence that *where the money goes* can be fixed by structure, while quality of day-to-day running cannot.
- **Public-service mutuals** (services spun out of the public sector and owned by their own staff). The claimed gains - more engaged staff, better quality - are real in some cases, and there is a credible *theory* that staff ownership gives people more motivation (set out by the academic Julian Le Grand; Grade B for the theory). But the evidence on actual *results* is weak: much of it comes from government promoting its own policy and from hand-picked success stories (Grade C-D). Carried here as promising-but-unproven, not as established.
- **Cooperative councils** (the Cooperative Councils' Innovation Network, a group of around 48 member councils). The evidence for better results is almost entirely produced by the movement itself - by the bodies advocating the approach (Grade D). The idea is attractive on grounds of democratic legitimacy; the proof is essentially absent, and it is graded accordingly.
- **Leisure trusts.** A long-standing independent-trust model for running leisure centres - but part of the apparent efficiency advantage is a **tax break** (relief from business rates and from VAT, the tax on goods and services, that is available to charitable trusts) rather than genuinely cheaper running, and the evidence is dated (Grade C-D). The saving is partly just a transfer from one part of the public purse to another, not a real efficiency gain. *(No solid primary comparative evidence was found for council-run services in the Nordic countries, so any general claim about the Nordic model is treated here as unsupported and is not made.)*

What this means for the council-finance allocation choice. The alternatives show that shareholder-owned hive-off is *not* the only way to get commercial discipline or scale - the council-owned company, the not-for-profit monopoly, and the council-owned trading company all offer routes that keep surpluses in and a line of oversight open. But the evidence for the *positive* models is much weaker (a lot of it Grade C and D, a lot of it coming from interested parties) than the evidence for the *failures* (the National Audit Office, the water regulator Ofwat, and Parliament - Grade A and B). The honest conclusion is therefore lopsided, and worth stating in exactly these terms: we can say with confidence *what tends to go wrong* when a service is hived off badly; we can say with much less confidence *which alternative will reliably go right*. That

imbalance is a reason to choose the kind of body cautiously - matching it to the service, keeping the three conditions - and to route the genuine value choice to the public, not pre-empt it.

7. What this hands to the council-finance product

This sub-study does not decide how any council service should be run. It supplies three things to the product that does route that decision to the public:

- **A finding**: the legal form is a weak lever; the operator and the governance are decisive - so the question "public or private?" is less useful than "is this kind of body matched to this service, and are the three conditions met?".
- **A framework**: the menu of options (§4.1) and the matching principle (§4.2), with which any given local service can be reasoned about.
- **A discipline**: the three success conditions (§5) as a test any proposed hive-off must pass, and the honest grading of the alternatives (§6) so that no model is oversold.

The allocation-of-functions choice - *which services a council runs directly, which it hands to an independent body, and which are funded and standardised nationally* - is a value choice, balancing local democratic accountability and responsiveness against national fairness and a single common standard. It is routed to the public in the main product's Choice 1. Nothing here is labelled "recommended". What this sub-study insists on is only that whoever makes that choice makes it on this evidence: knowing that the structure will not save a bad operator, that distance without governance is where hive-offs fail, and that the proven alternatives are real but more weakly evidenced than the failures they would replace.

Sources and grades

Full graded provenance is in `data_hiveoff/SOURCES.md` and consolidated in the Evidence Annex. Key sources: the Education Policy Institute (an independent education research body) (*School Performance in MATs* (multi-academy trusts) *and Local Authorities*, 2018; *The Impact of Academies on Educational Outcomes*, 2017); the Sutton Trust (an education charity) (*Chain Effects*, 2018); the National Audit Office (Parliament's spending watchdog) (*Converting Maintained Schools to Academies*, 2018; *PFI and PF2* (the Private Finance Initiative and its 2012 relaunch), parliamentary paper HC 718, 2018) and the Public Accounts Committee (the cross-party group of Members of Parliament who scrutinise public spending) (*Academy Schools' Finances*, 2018; *Private Finance Initiatives*, parliamentary paper HC 894, 2018); the National Audit Office's work on Carillion; the Office for Budget Responsibility (the government's independent fiscal forecaster) (2010, on how the Private Finance Initiative is treated in the public accounts); the Institute for Government (an independent think tank that studies how government works) (*Outsourcing and privatisation*, 2020); APSE (the Association for Public Service Excellence) and the University of Liverpool (*Rebuilding Capacity*, 2019); the academic Julian Le Grand (2018) on what motivates staff in public-service mutuals; and, for water, Problem Register entry 7 and the water Evidence Annex. Cross-references: Problem Register entry 1 (local government finance), entry 7 (water), entry 11 (state capacity - the "intelligent client" / council-side governance link in §4.2 and §5).

Evidence health, stated plainly. The strongest evidence here is the *failure* evidence - the National Audit Office and the Public Accounts Committee on the Private Finance Initiative, the regulators and Parliament on water, the Education Policy Institute's finding that differences within each sector outweigh differences

between sectors on academies, and the Carillion collapse (Grade A and B). The positive model claims - public-service mutuals, cooperative councils, leisure-trust efficiency, and general claims about the Nordic countries - are much weaker (Grade C and D), and several come from bodies promoting the approach. The field is case-study-rich and trial-poor: there are essentially no randomised controlled trials (gold-standard experiments) comparing the same service across different kinds of body. That imbalance is reported as a finding, not smoothed over - and it is the reason this sub-study delivers a framework and three conditions rather than a single recommended structure.