

The new municipalism

Taking back entrepreneurship



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APSE (Association for Public Service Excellence) is a not for profit local government body working with over 300 councils throughout the UK. Promoting excellence in public services, APSE is the foremost specialist in local authority front line services, hosting a network for front line service providers in areas such as waste and refuse collection, road and highways, renewable energy, parks and environmental services, leisure, school meals, cleaning, as well as housing and building maintenance.



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Research Team

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We would like to thank all those elected members and officers who freely gave up their time to engage with our research. This report would not have been possible without their collaboration. We have tried to bring out the complexities of their reflections as carefully as possible. However, all interpretations and arguments in the report are those of the research team. Any responsibility for error or failure to capture the everyday practices of municipal entrepreneurship lies with us.

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Foreword

Austerity has made many councils think the unthinkable as deep cuts to local funding have put 'difficult choices' on the table. Yet, out of this sense of urgency, a renewed spirit of municipal entrepreneurship has emerged. Local authorities are treading different paths, exploring novel ways of income generation that marry with their commitment to local stewardship and collaboration.

In this research report, we explore these initiatives and the emerging practices of municipal entrepreneurialism. We go beyond the often narrowly defined focus of income generation, as important as that is to councils in times of austerity. Rather, we explore genuinely innovative ways of working to demonstrate how local authorities are intervening in markets to deliver outcomes that go beyond financial benefits.

Indeed, the cases foregrounded in the report demonstrate how municipal entrepreneurship can be harnessed to advance social justice through stewardship of local economies; to create and maintain core capacity to intervene in local markets so that they work for the benefit of local communities; and to develop collaborative networks with local stakeholders rather than crude forms of competition.

Most importantly, the report shows how municipal entrepreneurship, that grounds local decision-making in local democratic politics, ensures a place for councillors to exercise choice and discretion in local public services. In other words, it gives elected members an alternative path to the 'difficult choices' on the table, a path which fits squarely with APSE's model of the Ensuring Council.

Municipal entrepreneurialism, as an approach, is about generating solutions, which tackle the complex problems faced by local authorities in meeting the needs of local communities. It is about aligning the financial strategies of councils with innovative policy initiatives which can advance community wealth creation and well-being. In short, it is about income-generation for a purpose.

This core message highlights the added value that can be achieved by municipal entrepreneurialism. At a time when local funding regimes are undergoing a radical transformation as councils become increasingly dependent on revenue from local taxation, and while future changes remain both uncertain and complex, the path to municipal entrepreneurship provides a much-needed alternative to cuts to service provision and 'sink or swim localism'. It opens up new opportunities for councils to act as stewards and to make places better for local communities.

Paul O'Brien

Chief Executive, APSE

Executive summary

Generating income for the public purpose

Municipal entrepreneurship is a crucial ingredient in today's local authority stewardship of place and community. As part of an Ensuring Council ethos, municipal entrepreneurship can be deployed to build the capacity of local communities and institutions, creating new economic, social and political networks through policy innovations and interventions in local markets.

Intervening in local markets

1. Councils operating in markets can work with local suppliers, driving forward community wealth building by using their purchasing power and assets to recycle economic benefit locally and build the capacity of small and medium enterprises (SMEs) to meet community needs. Collaborations with local producers offer a means of intervening in the formation of local markets and enhancing the vitality of supply chains. In working with local suppliers, councils open up access to new markets from which local suppliers might have been excluded in the past through the costs of bidding for large contracts and competing against large national contractors on large multi-trade contracts.
2. Municipal entrepreneurship is also one way for councils to tackle the 'Klondike' economy whereby national companies 'export' profits out of the area. Indeed, collaborating with local suppliers and competing against national providers helps to keep the council spend in the locality. Put alternatively, municipal entrepreneurship and local provision helps to plug any leakage of the public pound out of the area, while putting in place symbiotic working relations with local suppliers.
3. In exercising municipal entrepreneurship, local councils address market failure. The willingness to invest in failing markets can support communities that are struggling to attract private investment. Exercising the council's market strength can shape and regulate markets. It has the potential to bring private companies into local markets, de-risking investment while providing a strategic plan for development and contributing to business rate growth.
4. Procurement can be used as a supply-side tool to shape markets.
Authorities can insert clauses to support the Living Wage, and to encourage apprenticeships. Smart procurement opens up possibilities for private contractors to tie their own sub-contractors into the social benefits advanced by community benefit clauses.

The pathway to municipal entrepreneurialism

The research identifies two primary considerations for elected members and local authority officers on the path to municipal entrepreneurship. First, there is need to *manage expectations of increased flexibility*, which can jar with the rules and routines of local council decision-making and legal obligations. Second, entrepreneurial activities introduce *new financial and budgetary logics* into the running of the council. These can provoke questions over the reinvestment of surpluses, particularly when only part of the council is engaged in entrepreneurial activities. But, such new funding logics support moves towards budgetary procedures aligned to the generation of income to meet local needs and planned outcomes. They redirect thinking away from budget-setting processes that assume levels of resources and 'fixed' expenditure patterns while challenges protectionist practices of silo funding.

This study found a combination of practices across councils. Local councils have established for example new practices for signing off initiatives by chief officers and portfolio holders without returning to

Cabinet or full council. Councils have also established arms-length trading companies that operate as the market-oriented arm of the council. But, this was always commercialisation for a purpose. In some cases, additional income went back to the authority for reinvestment in council services. In others, it was reinvested back directly into the services that generated the income in the first instance. Such reinvestment decisions and budgetary arrangements should thus be addressed at the outset of any venture into a strategy of municipal entrepreneurship, as well as being kept under review.

Ensuring practices of municipal entrepreneurship

Keep public value at the forefront of your thinking

Public value should remain at the forefront of municipal entrepreneurship, guiding any assessment of how the authority uses its investment powers, engages in local partnerships and markets or collaborates with other councils. When income-generation is coupled to service innovations and aligns clearly with the vision of the local authority, it is possible to embark on a strategy of, what might be termed, 'commercialisation with a reason' or 'income generation for the public purpose'.

Facilitate an organisational culture of challenge

Municipal entrepreneurship thrives on the questioning of existing practices and organisational styles. Innovation, as previous studies have shown, rests on multiple modes of leadership: stewards acting as convenors of innovation processes; mediators operating as brokers; catalysts identifying opportunities; and deliverers ensuring outcomes.¹ Mobilising such different modes of leadership requires council leaderships to recognise the importance of a culture of challenge. In fact, our evidence demonstrates the benefits of supporting the work of 'puzzling', particularly as a way of facilitating the voice of catalysts within the organisation. Puzzling is a problem-oriented way of working that identifies how existing organisational practices or styles ultimately conflict with the declared purposes of the council. One of the key tasks in the leadership of municipal entrepreneurship is to drive forward innovation by ensuring the open dialogue and challenge for practitioners to identify and voice potential contradictions or inconsistencies between accepted ways of working and the purposes of the council.

Start from where you are

Municipal entrepreneurship does not have to be associated with a rupture with established ways of working. Practitioners speak of a 'long journey', of morphing services by building upon past activities, or by bringing existing assets together in new combinations to respond to local needs. Municipal entrepreneurship often re-designs existing practices rather than imposing sharp or critical junctures with past practices.

In seeking to re-design current practices, three different leadership practices can be deployed to drive forward change. These practices, which for us underpin the craft of puzzling, can be usefully understood as: *articulation* or re-prioritising one purpose or practice of the council's organisational style; *reconfiguration* or recuperating a previously marginal practice or way of working; and *cross-appropriation* or learning from and adopting the practices from other organisations or authorities.

Nurture your networks with stakeholders

Local authorities sit at the centre of a vast array of actors and organisations across the public, private, voluntary and community sectors. They are nodal actors, possessing the comparative advantage of large informational resources and relational networks. They should exploit this nodal power to gather information, survey local opportunities, forge new relations, and generate challenge to existing patterns of service delivery. This task relies on the pro-active cultivation of external networks, as well as internal mechanisms for information exchange within councils.

Understand and manage risk: risk aware not risk adverse

No policy intervention or innovation is without risk. Municipal entrepreneurship is no exception. Commercial risks are always going to be political risks. Indeed, councils are already proactively managing risk in property and other assets investments. Councils surveyed in this research have risk mitigation mechanisms in place, be it monitoring the scale of interventions, gathering market information or ensuring political oversight and scrutiny. Rightly, there are confines in which local councils operate, but there needs to be a balance of entrepreneurial culture against the effective mitigation of risk and assessments and analysis of likely outcomes. If local councils are overly risk-adverse or unduly constrained by process, they can stifle truly innovative practices and developments.

Upskill the workforce and build core capacities

Income-generation can maintain core capacity and deliver additional investment in new capabilities and skills as part of a council's workforce strategy. Indeed, practices of municipal entrepreneurship generate new roles and functions. For example, scanning for new tenders and contracts draws upon skillsets associated with the management of local networks and outward-facing responsibilities. Upskilling strategies may include, for example, appointing officers with the required skills, attitudes and experience to act as boundary-spanners between public, private and voluntary and community sectors. These new roles do generate costs, but such costs may be offset against the income generated.

Taking back entrepreneurship

Local councils, as the evidence in this report demonstrates, can drive forward local innovation and entrepreneurship. Working pro-actively with local partners, they can shape markets and generate income for public purpose. In the process, they can keep the local pound in the local community, de-risking investment opportunities in failing markets while providing the vision necessary to bring about change and meet local needs.

Municipal entrepreneurship can rest on alternative logics to market economics and profit-generation; those of everyday innovations which are grounded in practical problem-solving and the stewardship of place. These everyday practices thrive in organisational cultures that encourage challenge and the work of 'puzzling' to support the different leadership modes of collaborative innovation.

We thus call for local councils and communities to 'take back' ownership of the agenda of municipal entrepreneurship, and to embrace income-generation for the public purpose. As this study demonstrates, it presents a radically new way of thinking about how councils meet their duties of stewardship and community wealth generation, one that deserves to spread and grow across local government.

The new municipalism and public entrepreneurship

Municipal entrepreneurship has always been a subject of much debate and at times even some controversy. On the one hand, it has been portrayed in some circles as the nail in the coffin of local public service, the thin edge of the wedge for the traditions of local government. Taken as little more than a 'cloak' for commercialisation and financialisation, it is narrowly associated with trading and charging, marked down as further evidence, if needed, of the breakdown of the public service ethos in the face of powerful logics of the market and competition.²

Yet, on the other hand, appeals to municipal entrepreneurship have often been used to evoke the 'golden years' of local government, those readily associated with the leadership of Joseph Chamberlain and his vision for the city of Birmingham over a hundred years ago. Here, municipal entrepreneurship risks doing little more than reinforcing romanticised visions of bygone eras, arguably losing in the process its purchase on the current challenges facing local authorities under austerity.

This report takes a different stance, seeking to carve out a path between such heavily ideological constructions of municipal entrepreneurship. Adopting the ethos of the ensuring council, we argue that municipal entrepreneurship can be a crucial ingredient in today's local authority stewardship of place and community. Faced with the progressive demise of central grant funding and the challenge of perma-austerity, municipal entrepreneurship offers, this study suggests, an alternative to repeated cuts to services, the divesting of, or charging for, services, and the race to the bottom as local authorities compete to attract business within top-down central controls of funding.

In what follows, we call for local councils and communities to 'take back' ownership of the agenda of public entrepreneurship, investing it with alternative logics and understandings. Entrepreneurship cannot be confined to either the private sector or the voluntary and community sector. It is to be found in local government, informing local strategies to improve service delivery and tackle austerity. Indeed, as APSE's agenda-setting 2012 study of innovation and income-generation demonstrated, many local authorities have already taken up this challenge.³

'[we wanted] be masters of our own destiny, rather than have it done to us by central government cuts. [...] it is really good news to stand up in front of the staff [...] and talk about the budget and say to them 'you don't need to worry about major budget cuts or major staff reductions because we are not going to be doing that. They hear from neighbouring authorities that is all they are doing'

Senior operations officer

In fact, we draw upon a growing body of evidence that details how across local councils, entrepreneurship does not have to be automatically tied to advancing the narrow demands of business or the competition between towns and cities to attract mobile capital and highly-skilled workers.

On the contrary, the evidence presented in this report demonstrates how municipal entrepreneurship offers a pragmatic tool in the armoury of local government. Municipal entrepreneurship, we suggest, can directly address local policy challenges; build the social and economic aspirations of communities; and strengthen local resilience while accessing new funding streams and sources of income generation. When driven by the ethos of the ensuring council, it can deliver multiple benefits: the protection of in-house services; social justice and 'fairness'; local economic development and interventions into failing markets; skills and workforce development; and green innovation as part of the sustainable city.

This report draws evidence from five case studies of municipal entrepreneurship in councils widely identified in the professional press and media as being at the forefront of income-generation activities: Birmingham City Council; Dumfries and Galloway Council; East Riding of Yorkshire Council; Oxford City Council; Sevenoaks District Council; and Swansea City and County Council. Fieldwork and

data generation was undertaken in three stages. In the first stage, the research team assembled and analysed an archive of policy documents in each authority, namely briefings, strategic plans, project reports and evaluations. This was followed by a series semi-structured interviews and focus groups with a total of 21 participants drawn from project and corporate teams. Finally, emerging findings and policy recommendations were presented back to participants for challenge and critical discussion. We thank all those who took part in the research. Of course, all views and judgments expressed in the report are those of the research team.

Municipal entrepreneurship and the ethos of the ensuring council

The ethos of the Ensuring Council foregrounds how local authorities play a crucial role in the stewardship of place. Councils have the capacity to intervene in local economies, to deliver social change and contribute to the building of sustainable communities. Indeed, borrowing from the arguments of Mazzucato on the capabilities and crucial role of the entrepreneurial state in driving forward innovation, councils can pro-actively intervene in local markets in ways that reduce uncertainties and risks, while setting out with communities strategic visions or signposts for future developments in local markets.⁴ Such interventions, Mazzucato argues, can ‘crowd in’ and ‘dynamise’ investment. Most importantly, they can provide the foundations for ‘innovation ecosystems that result in symbiotic public-private partnerships rather than parasitic ones.’⁵

As others have said, there are alternative logics to the market and competition. Indeed, inter-authority relations, and those between authorities and communities, can be driven by logics of collaboration and co-production rather than competition, designed to generate common service and political objectives. In other words, local authorities can seek to bring alternative logics into being, shaping how they play out locally. To this end, as Gibson-Graham and colleagues declare, ‘we can build the economies [and communities] that we live in.’⁶

Ethos of the Ensuring Council

- **Stewardship** – Ensuring with communities the social, economic and environmental wellbeing of the local area.
- **In-house core capacity** – Maintaining the strategic advantages of in-house services to meet local needs.
- **Municipal Entrepreneurialism** – Capturing opportunities income-generation for the public purpose.
- **Collaboration** – Working with a range of service providers through co-operation and collaboration rather than competition.
- **Politics** – Grounding local decision making in political choices and preferences.
- **Social justice** – Ensuring that the values of equality, solidarity and meeting collective community needs.

Advancing this ethos of stewardship, we thus start from the premise that municipal entrepreneurship should offer a pragmatic approach to addressing local needs. As we have argued, it does not have to be narrowly framed within the logics of markets and competition, nor reduced to little more than commercial trading and charging for services. The entrepreneurial, we advance, can also be grounded in ‘everyday responsibilities’ and demands, delivering innovations in services and processes across municipalities; innovations which have their origins in local politics, dialogues with users, and the experiences of frontline staff.⁷

In a telling exchange, one senior officer first defined her income-generation role in narrow terms,

arguing that it was 'basically making money for the council, that's how I see my job'. Yet, she immediately dismissed this claim, following it up with a defence of how her work supports the local economy, how her unit make the most of local authority assets and builds supply chains that showcase the work of local producers across and beyond the council. Indeed, we found that commercialisation was being defined broadly, beyond its narrow conceptualisation as income-generation. It was persistently attached to service improvement, market intervention and support for local suppliers.

'we sort of describe it as a flower and the petals from it; some of those petals are very much [...] about making an out-and-out profit [...] the other petals are about reaching into what is good for the community and what is keeping empowerment locally; and sometimes it is not actually about making profit, it is about the well-being of the community.' **Chief officer**

In undertaking what we characterise as activities of municipal entrepreneurship, local councils tap into new sources of income to protect core capacity and offer new employment opportunities. They take the lead and work alongside the private sector as a force for job creation. In fact, our research repeatedly came across visions of municipal entrepreneurship that tied it to a set of broader local demands and outcomes, be it the regeneration of the local town centre; tackling energy poverty; opening market access to local supply chains and small and medium enterprises; or advancing social justice and opportunity through the creation of apprenticeships and the provision of unmet needs.

To recap, as part of the ethos of the Ensuring Council, municipal entrepreneurialism has to be firmly aligned to the delivery of the council's vision and its social and economic outcomes, across service and corporate levels. As such, it serves or helps to fulfil the responsibilities of local authority to deliver social justice and environmental protection. In other words, it is best understood as income-generation for the public purpose.

Oxford City Council: the social enterprise council

- Oxford is a city of social contrasts. Some 25 per cent of children live below the poverty line (adjusting for housing costs); three neighbourhoods have child poverty rates over 40 per cent (Indices of Deprivation 2015).
- Seeking to address such imbalances, the City Council has sought to adopt an enterprising culture, with a focus on income generation that recognises the Council as a form of 'social enterprise' that advances income generation as profit for a purpose not simply a case of profit for shareholders.
- The recipients of any 'dividend' are the City Council and the people of Oxford.
- Strategy is not about hiking ordinary fees and charges, but looking at enterprising opportunities to trade and charge in its operational services both within and beyond the City Council boundaries.

Intervening in local markets

Municipal entrepreneurship gives local authorities a number of ways of intervening in markets and responding to market failure. As one council officer was keen to point out, entering into the market enables authorities to develop 'niche services' previously not on offer in local markets while also providing authorities with a means of contributing to local economies through support for local providers and suppliers.

Building local markets

Councils operating in markets can, and should, work with local suppliers to build the capacity of local small and medium enterprises (SMEs) to meet local demand. Such collaborations forge privileged

relationships with producers in the local area, supporting the formation of local markets and the vitality of supply chains. They drive forward community wealth building by using local authority purchasing power and assets to recycle economic benefit locally and build the capacity of small and medium enterprises (SMEs) to meet community needs.⁸

Importantly, in working with local suppliers, as one senior officer noted, councils have the potential to open up access to new markets from which local suppliers might have been excluded in the past by the obligations of bidding for large contracts and competing against large national contractors on contracts that require multi-trade packages⁹

'We have some 300 contractors working for us [...] and we are giving them £17 million worth of business.' **Chief officer**

Municipal entrepreneurship should not automatically be viewed as competing with local businesses. As well as offering support to local business, councils can also exploit 'niche' markets beyond the reach of local business. For example, in the field of highways and engineering works, Oxford City Council judges that there are local opportunities to take council services to the market where smaller firms may be unable to compete effectively or where larger national firms are seen as too remote or too large for medium-term projects. In this way council intervention into markets can generate new forms of income, supporting the local economy rather than 'crowding out' local business.

Enterprising DG (Dumfries and Galloway): Building local economy and community resilience through partnerships with SMEs and micro-employers¹⁰

- Service delivery arm: catering; logistics; roads maintenance; facilities management; building and construction; fleet and vehicle maintenance; waste collection; print unit;
- Generating income to support frontline services;
- Advancing new forms of service delivery and culture change;
- 2015/16, turnover of over £44 million;
- Workforce of 1400 employees;
- £17 million of work subcontracted to 456 firms and micro-employers;
- Agnew Park Stranraer redevelopment – 75 per cent of construction works and business procured locally;
- Loreburn Hall development: 84 per cent of construction works and business procured locally.

Tackling the 'Klondike' economy

Collaborating with local suppliers and competing against national providers keeps the local pound in the regional economy.¹¹ As one officer argued, municipal entrepreneurship is 'very much about trying to sustain and keep the local pound within' the community. But, at the same time, engagement in the local markets - exercising the market strength of the council - enables the authority to regulate markets. As one senior officer was keen to point out, the authority acts 'as a leveller [...], without us markets would potentially creep, the rates would go up, and best value and value for [the area] would start slipping'. Indeed, one council representative spoke of how collaboration with local providers went as far as to support stable local employment practices, with the council offering, when possible, short-term contractual work to local companies to avoid employees of partners and suppliers being laid off.

'the challenge we have is primarily contractors and other bodies come into our authority and then take the money and the benefits [...] and then disappear [...] Major projects and refurbishments have 75 to 80 per cent of those working on the site who are local contractors; had that gone to contract, it could have been a company from outside [the authority] doing the work.' **Chief officer**

Addressing market failure

In exercising municipal entrepreneurship, local authorities have demonstrated their willingness to intervene in failing markets and communities that struggle to attract private investment.¹² There were for example some 150 local authority housing companies in England at the end of 2017.¹³ Birmingham Municipal Housing Trust (BMHT) was launched to tackle market failure in respect of the quantity and quality of homes provided by private sector volume house builders. On the one hand, Birmingham expected to witness the creation of 80,000 new households by 2031. But, new house building within the city was projected to fall from 4,000 units per annum in 2005/6 to 1,600 in 2013/14. On the other hand, BMHT's house building programme uncovered massive latent demand for housing in areas neglected by the market. This latent demand was recognised as being particularly significant in low income neighbourhoods and areas characterised by large Black and Minority Ethnic (BME) populations. In such neighbourhoods, money to invest was held locally, but access to finance and loans was not always open.

BMHT's 'buy now, pay later' scheme was one of the mechanisms developed to 'de-risk' house building for private developers, with the council internalising the risk, normally borne by developers, in respect of land acquisition, securing planning consent and so on. Surpluses are shared with the developer. Importantly, BMHT moved to building homes directly, using a contractor rather than a developer so it benefits from all surpluses (except contractor fees).

In fact, BMHT has constructed more than twice the number of new homes originally anticipated; currently between 400 and 500 properties per annum. It is now the largest homebuilder in Birmingham, accounting for up to 25 per cent of the local market. The adoption of a direct sale method in the context of increasing house prices has significantly driven up margins on new properties.

Birmingham Municipal Housing Trust (BMHT): intervening in the housing market

- 1,632 new council and 1154 new homes for sale completed since 2009;
- 500 homes under construction;
- Funding sources (per new council dwelling): Homes England grant, Right to Buy receipts, cross subsidy from homes for sale etc; other such as S106, borrowing, land sales;
- Typical rent on new council dwelling = social rent plus £2.74 per week (equivalent of 70% of market rent).

Procurement as a supply-side tool to shape markets

Working with local suppliers and contractors also opens up the possibility to use procurement as a tool to shape markets and working conditions, while creating employment opportunities. Authorities can insert clauses to support the Living Wage, and to encourage apprenticeships. At the same time, such smart procurement opens up possibilities for private contractors to tie their own sub-contractors into the social benefits advanced by the likes of community benefit clauses. Indeed, research by APSE and NLGN (2016) shows that when local councils take an innovative approach to employment and skills, there are tangible benefits to local areas and businesses, often beyond national initiatives.¹⁴

The City & County of Swansea's 'Beyond Bricks and Mortar' initiative aims to add value to its procurement processes. Using community benefit clauses, it generates new training and employment places for unemployed and economically inactive people. Partners from both the public and the third sector help to prepare suitable candidates to undertake training and employment places created by council contractors. Indeed, Swansea has moved to offer support to other public partners to assist them in using community benefit clauses including the two Swansea Universities, the NHS and a local College. The scheme was recently expanded on a partnership basis to Coastal Housing (a social housing

landlord) to place trainees in their projects as well as the Swansea Bay Partnership (Local Authority collaboration) on the Swansea University new campus project.

Swansea and the Use of Community Benefit Clauses

- 128 contracts contain community benefit clauses;
- Resourced by a team of 3.5 full time equivalent staff with no direct budget;
- Main partners: Jobcentre; Communities First; Workways; Communities for Work; Remploy; Shaw Trust; Ethnic Youth Support Team; Careers Wales; Gower College Swansea; and Cyfle Shared Apprenticeships;
- Delivered equivalent value of 10, 000 weeks of training.
- Around 40 per cent of trainees have been kept on past the contract date (excluding those on work experience), which has resulted in 295 training opportunities and 85 people into jobs.

The pathway to municipal entrepreneurialism

The challenges facing local authorities in the pursuit of municipal entrepreneurship vary, as to be expected, from council to council. As one research participant was keen to point out, such challenges derive in part from issues of scale, in relation to both the size of the council and the undertaking or project. Yet, they also cannot be divorced from the local context within which councils operate, which includes not least the political leadership of the authority; local visions and priorities; appetites for risk; existing capabilities and resources; national and regional networks and responsibilities; community capacities and needs; and local social and economic geography.¹⁵

Like all strategies, municipal entrepreneurship will doubtlessly ask questions of established ways of working, while generating new demands, triggering new concerns within parts of the council, and producing new expectations across communities. Indeed, our research has surfaced a number of potential challenges to established ways of working: the need for new risk management mechanisms; concerns over possible clashes with the 'day-job'; the stretching of in-house services through bidding for large contracts that the authority might ultimately not win; and the linking of income-generation to community needs and demands.

But, our study also suggests that what matters most is how such challenges are given meaning and addressed as part of the *style* of decision-making that prevails across an authority. And, here two core questions kept emerging and re-emerging throughout fieldwork. These questions, we suggest, should be at the forefront of the thinking of local leaders, for they potentially challenge directly local styles of working:

- How will the authority manage expectations among staff of increased organisational flexibility that comes with a culture of entrepreneurialism?
- How will the authority adapt budgetary logics to fit with demands of municipal entrepreneurship? ¹⁶

Managing expectations of increased flexibility

Moves towards municipal entrepreneurship generate new expectations around flexibility, which can jar with the rules and routines of local council decision-making and legal obligations. Standard 'checks and balances' risk becoming seen as a barrier to exploiting new opportunities or as a competitive disadvantage, as one chief officer remarked: council procedures are 'a major problem all the time [...] if you work for the council you have to, you know, spend time and energy going through the procedures and policy and everything else that's in place...right down to buying...'

In response, local councils have moved towards increasing flexibility in decision-making and adopting

managerial models that fit with the demands of different business models and their modes of intervention. On the one hand, councils have established practices for signing off initiatives by chief officers and portfolio holders without returning to Cabinet, full council or appropriate committees or sub-committees. In our cases, this flexibility includes for example buying individual properties up to a set value or entering into work contracts with a value of up to £450,000.

Equally, authorities have established arms-length trading companies that operate as the market-oriented arm of the Council. These may take on specific services, such as local authority housing companies, or offer a range of services (typically building services, waste, street scene, road maintenance, parks and so on). In forging such new company structures, local authorities hope to put in place the institutional framework to foster new cultures and grasp new opportunities, alongside continued investment in the public-sector ethos of service delivery.

Rethinking budgetary logics and where the money goes

Entrepreneurial activities can provoke policy questions over the reinvestment of surpluses, particularly when only part of the council is engaged in such activities. At the very least, municipal entrepreneurship introduces new financial and budgetary logics into the running of the council. One senior officer thus commented ‘if I don’t make the money, I don’t get it [...] we have to make money before we spend it’. Such claims advance a radically different logic of funding, which does not always marry with traditional budgetary logics. In this latter logic, officers are attributed a budget, with the focus on becoming one of delivering efficiencies to meet the service needs within the amount allocated. Municipal entrepreneurship challenges such thinking, opening up the potential to move towards funding logics based on needs and outcomes, and the mobilisation of funding. It redirects thinking away from budget-setting processes that assume levels of resources and ‘fixed’ expenditure patterns while challenging protectionist practices of silo funding.

Oxford Direct Services: a new company structure

- In 2016/17, in-house Oxford Direct Services had a turnover over some £55m, 650 staff and expected external trading raising around £8m.
- To realise its ambitions of trading in excess of £16m by 2020 the council has developed a new company structure, with two arms.
- One arm will operate as a ‘Teckal’ company to predominately provide services to the local authority with the aim of optimising Best Value.
- The second arm will be a company for commercial purpose to continue with the City’s ambitions to increase income generation, while maintaining the workforce through growing the repairs and maintenance work of Building Service. The wholly owned trading company, which will operate as a company limited by shares, will exploit new opportunities in the local market and beyond. Areas identified for growth include commercial (trade) waste services, highways and engineering and building work.
- The City Council will transfer staff to the new Trading Company structure, with the commitment that it will protect transferring employees, as if TUPE applies, and continue to afford staff membership of the LGPS; pensions will be treated as a contractual position to best protect the transferring staff.

Entrepreneurial activities can provoke policy questions over the reinvestment of surpluses, particularly when only part of the council is engaged in suand the mobilisation of funding. It arguably redirects thinking away from budget-setting processes that assume levels of resources and ‘fixed’ expenditure patterns while challenges protectionist practices of silo funding.

In response to such challenges, Swansea City and County Council has adopted an approach of co-production in budgetary discussions. This co-production approach sees senior officers, policy officers and frontline service staff engaged in outcome-focussed service reviews, which turn traditional budgetary logics on their head. Reviews assume zero-based budgets and explore service delivery on an end-to-end and needs-based basis.

But, in challenging traditional budgetary practices, the logic of municipal entrepreneurship also questions whether services generating income have control over the use of that surplus for re-investment in their activities. This is in part an issue of incentivisation for those engaged in such activities, but it is also a question of whether councils define additional income as ‘surpluses’, as ‘savings’ or as ‘profits’.

‘But, 90 per cent of the rest of the council are suffering with this definition that we are making profit, because they always refer to it as a ‘saving’ [...] this is not a ‘saving’, this is a profit that we are bringing back to the council.’ **Senior officer**

This study found a combination of practices across councils. In some cases, additional income went back to the authority for reinvestment in council services. In others it was reinvested back into the services that generated the income in the first instance. There were no specific lessons in relation to which of these options ‘works’ most effectively. It is a question of local political leadership and priorities. However, it is a decision that should be addressed at the outset of any venture into a strategy of municipal entrepreneurship, as well as being kept under review.

East Riding Council and Well-Being Services: intervening in the health economy

- Working with members of the community at greatest risk from physical inactivity;
- Prevention services aimed to reduce bariatric surgery costs - self-care approach can cost as little as one-tenth of surgery costs;
- Estimated reduction of bariatric surgery from 88 operations to just 15-20 per annum, creating savings of between £624,000 to £780,000 per annum;
- Combines income generation with local health intelligence and well-being outcomes;
- Rising retention rates leading to increased membership of leisure services;
- Reinvestment of surplus in services.

Ensuring practices of municipal entrepreneurship

Keep public value at the forefront of your thinking

Municipal entrepreneurship, we suggest, is not merely a defensive strategy to address the financial pressures on local authorities. As part of an Ensuring Council ethos, it can be deployed to build local institutions and communities, while bringing into being new economic, social and political relations through policy innovations and interventions in local markets. However, to achieve such outcomes, municipal entrepreneurship must be grounded in a future vision for the local authority. In other words, the public value of municipal entrepreneurship should remain at the forefront of any innovations, guiding for example any assessment of how the authority uses its investment powers, engages in local partnerships and markets or collaborates with other local authorities.

'There is a huge amount of civic pride around the fact that the council is building its own homes, and to a high standard.' **Senior officer**

To reiterate, in making such claims, we are seeking to widen understandings of entrepreneurship, moving away from narrow conceptions of private-sector market entrepreneurship. Entrepreneurship, as Sheamur and Poirier assert, is about identifying and tackling problems through the generation of innovative solutions. In other words, when local councils deliver new services or processes, they act as public entrepreneurs.¹⁷

Importantly therefore for our perspective, the drive for innovations within councils should not necessarily be limited to narrow income-generation and commercialisation. Rather, it should be directed at the reconfiguring or re-imagining of services, and open equally to large-scale 'game changing' and small-scale incremental interventions to improve local outcomes. When income-generation is coupled to service innovations and aligns clearly with the vision of the local authority, it is possible to embark on a strategy of, what might be termed, 'commercialisation with a reason' or 'income generation for the public purpose'. It is such strategies that we foreground here as strategies of municipal entrepreneurship.

The Birmingham Building Scholarship, funded by BMHT surpluses, provides bursaries (100 to date) for young people from disadvantaged communities to study construction related disciplines at university.

Facilitate an organisational culture of challenge

Municipal entrepreneurship owes much to the capabilities of actors to change or question the style in which local authorities work. All councils are characterised by a set of established practices or customary ways of doing things that bring together for example particular tools, or advance specific organisational purposes and roles. Coordination of these embedded ways of working reproduces a specific organisational style (influencing for example how communities are engaged or how councils organise and deliver scrutiny functions or committee roles). Municipal entrepreneurship rests on the questioning of these existing practices and styles. Put alternatively, it requires that council leaderships recognise the importance of a culture of challenge.

To facilitate the development of a culture of challenge, our evidence demonstrates the benefits of supporting the work of 'puzzling'. Previous studies have pointed to the shifting roles of stewards, mediators, and catalysts, as well as deliverers.¹⁸ Stewards convene processes of collaborative innovation, ensuring transparency of decision-making for example. Mediators act as 'honest brokers', while 'deliverers' shift attention onto outcomes or the implementation of tasks. Catalysts identify opportunities to generate value and mobilise relevant stakeholders. At different stages of the

innovation or enterprise cycle, these different modes of leadership will each have a role to play and contribution to make.

But, in speaking of ‘puzzling’, we draw attention to a particular way of working as a way of facilitating the voice of catalysts within the organisation. Puzzling is a problem-oriented or problem-solving way of working that identifies how current organisational practices or styles ultimately conflict with the declared purposes of the council. In short, by identifying or pinpointing to ‘anomalies’ or ‘disharmonies’ in accepted ways of acting, puzzlers reveal to others how existing practices and styles of the organisations undermine or fail to deliver organisational visions and aims.

Significantly for us, the craft of puzzling focuses on the experience of the everyday practices with which councils tackle ‘wicked policy’ issues. In other words, the ‘puzzle’ to be solved is not some intellectual conundrum, but the limits of the customary practices and style of the organisation that excludes different ways of working or produces contradictions. Puzzles are anchored in the constraints of everyday practices, while being exposed by practitioner knowledge of local contexts and experience gleaned from engaging with communities and other stakeholders.

It follows that one of the key tasks in the leadership of municipal entrepreneurship is to ensure the open dialogue and challenge for practitioners to identify and voice potential contradictions or inconsistencies between accepted ways of working and the purposes enshrined in the vision of the council.

Enterprising DG: operational values

- listening to each other with an open mind without interruption;
- sharing knowledge, information and experience with those who can benefit
- taking decisions based upon reasoning not rank;
- expressing concerns only to those responsible for dealing with them
- basing the focus of our work on the ‘customer’;
- promoting a responsibility culture not a blame culture;
- striving for continuous improvement
- behaving with integrity;
- positively challenging dishonesty or destructive behaviour;
- enable the delivery of Council services.

Taken from Business Plan 2015-2018¹⁹

Of course, there are confines in which local councils operate. As we argue below, there needs to be a balance of entrepreneurial culture against the effective mitigation of risk and assessments and analysis of likely outcomes. Nevertheless, if local councils find themselves unduly constrained by process, this can stifle innovative practices and developments.

Participants in the research thus pointed repeatedly to the importance of empowerment cultures across local authorities. One senior officer spoke of how it is vital that all staff are ‘not afraid to come up with a duff idea’. Another referred to the value of working in environments in which there is ‘permission to fail’ and a ‘no handcuffs policy’, which gives frontline staff the confidence to work outside risk adverse cultures which stifle innovation.

To this end, Dumfries and Galloway First holds for example what it calls the ‘Tuesday Club’ in which team members come together to pitch ideas and new initiatives. It has also established its own centre of excellence, a two-way learning space which has been set up to engage other council services, as well as to transfer ‘good practice’ lessons across the authority and facilitate culture change.

Start from where you are

Municipal entrepreneurship does not have to be necessarily associated with a rupture or break with established ways of working.²⁰ Practitioners speak of a 'long journey', of morphing services by building upon past activities, or by bringing existing assets together in new combinations to respond to local needs. For the most part, while challenging existing organisational styles, the effectiveness of organisational entrepreneurship arguably still rests on its anchorage in existing practices.²¹ Municipal entrepreneurship thus often-reconfigures available and existing practices rather than imposing sharp or critical junctures with past practices.

Sevenoaks District Council: using reserves to generate returns and intervene in local property markets

- Investing in district to regenerate area and protect employment opportunities.
- Property investment strategy, using reserves avoids external borrowing costs; begun with £10 million (aim to expand to £25 million)
- 'Buy, Borrow, Build': acquired petrol station with a supermarket, two office blocks and retail accommodation.
- Investments must bring a return of no less than 6 per cent.
- Partnership with Premier Inn to build 80-room hotel – joint venture ensures 25-year rental income for council rather than one-off capital receipts through selling land.

'one of our main missions [...] is not just income but to maintain employment property [...] it is all too easy now, and we see it happening, for offices and employment property to be changed into housing because of the new permitted development rights on planning and so we wanted to make sure that we do retain property for employment purposes.'

In seeking to reconfigure existing practices in such a way, three different leadership practices can be deployed to drive forward change. These practices, which for us underpin the craft of puzzling, can be usefully understood as: articulation; reconfiguration; and cross-appropriation.²²

Firstly, in processes of *articulation*, strategically-placed individuals drive forward innovation by re-prioritising one purpose of the council over others. Put alternatively, in this moment of 'taking stock' or 'fine tuning', authorities critically reflect on how far existing practices, work and projects, continue to deliver or meet the aims and objectives of its organisational style and vision. If practices and styles of working are not aligned, they then put in place a renewed agenda that narrows down or refocuses on one purpose or practice of the organisational style. In this process, councils may well 'revive' a practice or way of working that whilst accepted as a component of the organisational style has become increasingly neglected.

Secondly, innovative leaders can draw upon methods of *reconfiguration*. Such processes of reconfiguration can significantly change the style of the organisation. In this instance, marginal practices or way of workings, which have been excluded from the organisation, are recuperated. Marginal practices are thus 'brought back' in to the council and deployed at the forefront of its departments and modes of service delivery.

Disclosing New Worlds: the work of Spinosa, Flores and Dreyfus

*'A past practice that was once important could be revived, a neighbouring practice with which the [council] has some familiarity could be cross-appropriated, or a practice that has become marginal in the culture and so unexplored could be become recognised as important.'*²³

Finally, innovation and change are also driven by *cross-appropriation*. Here practices from other organisations or authorities are taken up by a council and implemented as a means of transforming its own organisational style and practices. This requires in itself processes of translation and learning, and can be often facilitated by the presence of boundary-spanning practitioners. Boundary-spanners straddle multiple organisations, able to speak the ‘language’ of different organisations and facilitate the transfer of policies and initiatives.²⁴

Nurture your networks with stakeholders

Local authorities sit at the centre of a vast array of actors and organisations across the public, private, voluntary and community sectors. They are nodal actors, possessing the comparative advantage of large informational resources and relational networks. They should seek to exploit this nodal power to gather information, survey local opportunities, forge new relations, and generate challenge to existing patterns of service delivery.

Innovation arguably best occurs within collaborative networks of actors that bring different ideas and local knowledge to the table.²⁵ The harvesting of ideas and everyday expertise from external stakeholders, communities and frontline staff is thus one of the primary strategies of the entrepreneurial organisation. Importantly, this task rests on the pro-active cultivation of external networks and the generation of internal mechanisms for information exchange within councils and across partnerships.

In fact, one officer saw the building of networks to scan for opportunities as part of her everyday practice. In her words, she was always ‘looking for opportunities out there [...] whether there is a place for me or not.’ Conversations with partners, communities and contractors represented for example one of the main vehicles through which she became aware of new tendering opportunities. More than that, in her discussions with service users and prospective clients, she was always looking for opportunities to connect her colleagues with new opportunities, to offer her colleagues as a potential contractor. Facilitating such efforts to promote opportunities for colleagues owes much to the building

City and County of Swansea Council: providing affordable homes to rent

- City’s first new council properties since the 1980s; funded by council rents;
- ‘Milford Way’ scheme in development: 10 two-bed semi-detached houses, and eight one-bed apartments;
- Built to innovative Passivhaus energy efficiency standards to alleviate fuel poverty and lower carbon footprint;
- ‘Lifetime Homes’ standards to meet future needs of residents;
- Built by the councils’ own corporate building and property services team using apprenticeships and creating further work experience opportunities.
- Further scheme being developed at Parc Y Helig for 12 one bedroom flats.

With this in mind, councils should nurture the capacity of local networks to harness ideas and challenge from business, communities, voluntary and citizen groups, universities and so on. Some councils have established specific tendering teams for scanning opportunities across local communities, acting as a catalyst of informal communication between officers from different teams. Whatever option selected by councils, this research suggests that ensuring information flows is best seen as part of a broader culture change, one which supports the likes of problem-centred approaches to delivering services, multiple modes of leadership, mitigation of risk, avoidance of a blame culture, and so on.

Understand and manage risk: risk-aware not risk-adverse

No policy intervention or innovation is without risk. Municipal entrepreneurship is no exception. And while for some authorities, income-generation offered an opportunity to build the ‘brand’ of the council, for others it posed a set of multiple risks: damage to reputation; opportunity costs; loss of

public funds and resources.²⁶ However, it is hard to deny, as one chief officer pointed out, that the multiple forms of ‘commercial risk [tend to become] political risk’. In one authority, for example, fears that the council would be seen to be competing with local business was characterised as a political risk: ‘commercialism has always been classified as a “dirty word”, for [it assumes] council departments competing against anybody who is local [...]’.

Reputational risks to the council ‘brand’ through engaging in markets were recognised in authorities, particularly those which had firmly established themselves as guarantors of ‘above-board’ trusted trading. One officer thus spoke of the need to protect the reputational power of the council, making it clear that ‘always protecting the council’s name, that’s drummed into me’. Indeed, such reputational risks can have significant impacts beyond the boundaries of the council due to the intense national political and media scrutiny that they can entail.

Notably, political debates continue over the extent of the risk carried by councils through commercial investment strategies in property, particularly in property outside a council’s boundaries.²⁷ Councils, it is alleged, do not have the internal capabilities to manage such risks, and may well be better advised to use resources to deliver improved returns from their existing property portfolios: more efficiently managing, rather than adding to, their existing assets in order to generate increased returns.²⁸

East Riding Council and Well Being Services: innovating in digital technologies to support long-term engagement

- Developed in-house leisure management and bookings software which includes access by GPs to access appointment requests online and transfer securely to the Well-Being service;
- Enables three or four contacts with the healthy lifestyles development officer before coming into the authority’s leisure centre;
- Lowered recorded ‘did not show’ appointments (currently less than 10 per cent);
- User friendly solutions to track changes to physical well-being;
- Currently considering taking in-house leisure management system to market with other partner organisations.

But, whilst there is a space for debate on the degree of risk councils should run, it should equally be noted that councils are already proactively managing risk in property and other assets investments.²⁹ Indeed, there is evidence to suggest that councils are able to manage investment portfolios to ensure the long-term financial well-being of local areas³⁰ Authorities have risk mitigation mechanisms in place, be it monitoring the scale of interventions, gathering and auditing market information or ensuring political oversight and scrutiny over strategic investment decisions.

For example, building homes is obviously a speculative activity which comes with a financial risk. Birmingham Municipal Housing Trust (BMHT) has therefore sought to mitigate risks for the council by ‘starting small and having a back-up plan’ (taking unsold properties into council ownership). As the financial environment has become more challenging – due to reduced grant levels – BMHT has also built higher proportions of market housing per development (although no more than 50 per cent in any given scheme) to cross-subsidise rented accommodation.

Alternatively, DG First has established a subcommittee to engage elected members in its operations, in ways that mirror board or executive responsibilities in determining and managing risks; moving away therefore from a post hoc scrutiny of decisions and risk assessments.

Rightly, there are confines in which local councils operate, but there needs to be a balance of entrepreneurial culture against the effective mitigation of risk and assessments and analysis of likely

outcomes. If local councils are overly risk-adverse or unduly constrained by process, they can stifle truly innovative practices and developments.

Upskill the workforce and build core capacities

Income-generation can maintain core capacity and deliver additional investment in new capabilities and skills as part of a council's workforce strategies. Indeed, practices of municipal entrepreneurship generate new roles and functions. For example, scanning for new tenders and contracts, draws upon skillsets associated with the management of local networks and outward-facing responsibilities. Similarly, investment in housing may require the re-creation of a Property Team to manage council assets (rent, income and so on), while pre-investment decisions require new roles for the likes of asset surveyors.

These new roles do generate costs, even though such costs may 'not be huge compared to the income that has been generated'. But, more importantly, they also offer means of building core capacities as part of a council's workforce strategy.

For example, as part of its intervention in the local health market, East Riding built its core capacity through the development with health academics at Hull University of an ongoing training programmes in behavioural psychology and other related customer centric training activities. The application of behavioural psychology techniques meant staff gained new communication skills and alternative modes of interacting with service users. This upskilling of core capacities enabled the refocussing of services around the bespoke needs of service users who, following the development of a programme with local GPs, were able to be referred to the leisure service in much the same way as a patient might be referred to an NHS treatment centre.

Alternatively, upskilling core capacities may lead councils to appoint officers with the required skills, attitudes and experience to act as boundary-spanners between public, private and voluntary and community sectors. In such scenarios, councils enhance organisational advantage in the short-term by employing staff with knowledge of local markets, as well as established networks with local and regional stakeholders. In some contexts, bringing in individuals with different forms of expertise and experience may well act as a strategic catalyst to transform embedded organisational cultures.

To recap, municipal entrepreneurship does not come without its own set of challenges. It can call into question traditional budgetary logics while triggering increased expectations among staff of new organisational flexibilities. It asks council leaderships to facilitate cultures of challenge; exploit local relational networks; re-appraise processes of risk mitigation; build core capacities; and keep public value at the forefront of any intervention.

Most importantly, municipal entrepreneurship requires new forms of leadership to be facilitated. Our evidence points to the strategic contribution of the work of 'puzzling' in driving forward change within local councils and their associated networks. The craft of puzzling grapples with how existing practices or style of working can conflict with declared organisational purposes. It is grounded in learning from the experience of the constraints or limits of everyday practices. In so doing, puzzling can drive forward innovation, contributing to the reconfiguration of existing practices or ways of working.

Conclusions and recommendations: taking back entrepreneurship

We began this report with a call for councils to take back entrepreneurship. And, in this conclusion, we want to repeat that call. Innovation should not be seen as the sole property of the private or voluntary and community sectors. Local councils, as our evidence demonstrates, also drive forward innovations.

But, more importantly, income-generation can no longer be viewed solely through the narrow lens of commercialisation, markets and support for business. Working pro-actively with local partners, councils can regulate markets and generate income for public purpose. In the process, they can keep the local pound in the local community, de-risking investment opportunities in failing markets while providing the vision necessary to bring about change, meet local needs and build business rate growth.

Municipal entrepreneurship can thus rest on alternative logics to market economics and profit-generation; those of everyday innovations which are grounded in practical problem-solving, 'puzzling', and the stewardship of place. In other words, it is income-generation with a purpose. And, it is this harnessing of income-generation with the delivery of the public purpose that characterises for us the new municipal entrepreneurship.

That purpose, we argue, is best brought into being through the ethos of the Ensuring Council. The Ensuring Council marries municipal entrepreneurship with the values of stewardship; core capacity; politics; collaboration; and social justice. Framed as part of this ethos, municipal entrepreneurship thus offers councils a pragmatic strategy to address the dilemmas of austerity governance, to intervene in local markets and re-design services to meet local needs.

Taking back entrepreneurship

1. Manage expectations of increased flexibility;
2. Re-evaluate budgetary logics, consider in advance the use of surpluses;
3. Keep public value at the forefront of your thinking;
4. Facilitate an organisational culture of challenge;
5. Start from where you are;
6. Nurture your networks with communities and stakeholders;
7. Understand and manage risk: risk aware not risk adverse;
8. Upskill the workforce and build core capacities.

Councils are taking up such a strategy of municipal entrepreneurship, as this report demonstrates. They are laying the foundations of a new municipalism, which challenges the long-held assumptions of the model of the enabling council, which advocated councils contracting out and divesting themselves of local services. In stark contrast, municipal entrepreneurship, be it the creation of housing and energy companies or partnerships with local firms and the use of community benefit clauses, offers authorities the means to reconnect with the 'big ticket' issues and tackle the 'wicked issues' facing local communities.³¹ We thus call for local councils and communities to 'take back' ownership of the agenda of municipal entrepreneurship, and to embrace income-generation for the public purpose. As this study demonstrates, it presents a radically new way of thinking about how councils meet their duties of stewardship and community wealth generation, one that deserves to spread and grow across local government.



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