

# Research into the Public Service Mutuals Sector

**CIPFA Research**

**February 2017**

## Contents

Glossary.....	3
Introduction .....	6
Executive Summary.....	7
Research Methodology .....	8
Response Profile.....	10
Motivations for Mutualisation .....	15
The Mutualisation Process .....	17
Characteristics .....	23
Performance and Benefits to Date .....	30
Operations and Business Plans.....	35
Respondent Advice for Organisations .....	40
Respondent Recommendations for Future Support .....	41
Appendix One: Previous Research .....	43

## Glossary

AGM	Annual general meeting.
Back office functions	Comprises operations that provide support to the frontline delivery of services, including finance, HR, legal services, and marketing and communications.
CEO	Chief executive officer.
CIPFA	Chartered Institute of Public Finance and Accountancy.
Community benefit society	CICs are a new type of limited company for people wishing to establish businesses which trade with a social purpose (social enterprises), or to carry on other activities for the benefit of the community.
Community interest company (CIC)	CICs are limited companies which operate to provide a benefit to the community they serve. They are not strictly 'not for profit', and CICs can, and do, deliver returns to investors. However, the purpose of CIC is primarily one of community benefit rather than private profit. Whilst returns to investors are permitted, these must be balanced and reasonable, to encourage investment in the social enterprise sector whilst ensuring true community benefit is always at the heart of any CIC. For some CICs this is delivered through the provision of a service to a specific community, for example a welfare service to vulnerable people, in others it will be an activity that generates profits which are used to support a specific purpose such as a running a cafe where all profits generated are used to benefit the community.
Co-operative society	Co-operative societies are formed primarily to benefit their own members, who will participate in the primary business of the society. To satisfy the Financial Conduct Authority that it will be a bona fide co-operative, a society will normally have to fulfil several conditions, including a community of common interest and equal control for all members.
DCMS	Department for Culture, Media & Sport.
Delivery models	A delivery model is the means by which public services are organised, administered and delivered to the public.
Depth interviews	Qualitative phone interviews conducted by CIPFA with representatives from public service mutuals between 2 December 2016 and 9 December 2016. Interviews typically lasted between 30 and 60 minutes.

Diversification	In this report, diversification is when a public service mutual expands or varies its service delivery beyond its original contract. For example a public service mutual could deliver new types of services or products, expand into new sectors of operation, expand into new geographic regions or change its business model by generating revenue in other ways than solely through public service contracts.
Employee ownership	Employee ownership can take one of three forms:  Direct employee ownership – using one or more tax advantaged share plans, employees become registered individual shareholders of a majority of the shares in their company;  Indirect employee ownership – shares are held collectively on behalf of employees, normally through an employee trust;  Combined direct and indirect ownership – a combination of individual and collective share ownership.
EOA	Employee Ownership Association.
FTE	Full Time Equivalent (FTE) workers are defined as having a minimum of 35 standard contracted working hours per week. Anyone who works full time for the business year should be treated as one FTE. Part time, seasonal and those who only work for part of the year should be treated as a fraction of one FTE.
Industrial and provident society/co-operative society and community benefit society	Industrial and provident societies are a legal designation that has recently been replaced by the designations co-operative society and community benefit society. They generally have share capital but this is distributed equally at face value so that all members benefit in the same way.
Legal form	The legal status of the business entity. The legal form chosen has implications in areas such as profit, regulation and tax.
Mutualisation	For the purpose of this report mutualisation is the process of 'spinning out' of a parent body to become an independent organisation in the form of a public service mutual.
The Cabinet Office Mutuals Support Programme	The Cabinet Office Mutuals Support Programme supported fledgling public service mutuals to access bespoke professional expertise and advice that ended in 2015.

Non-executive director	Non-executive directors are members of the board of directors of a company who are not part of the organisation's management team. They take an advisory role but have the same legal responsibilities as other directors. In the case of public service mutuals, non-executive directors are often selected because of their commercial experience. They sometimes then take on a mentorship role for the management team.
Online survey	Quantitative survey conducted by CIPFA between 21 November 2016 and 13 December 2016.
Operationally live	Organisations trading as at the date that they completed the online survey.
Parent body	A public service mutual's parent body is the entity from which it originally 'spun out'. Parent bodies of existing PSMs are commonly part of the NHS or a Local Authority.
Private limited company	A limited company has special status in the eyes of the law. These types of company are incorporated, which means they have their own legal identity and can sue or own assets in their own right. The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of these is called a shareholder. Because limited companies have their own legal identity, their owners are not personally liable for the firm's debts. The shareholders have limited liability, which is the major advantage of this type of business legal structure.
Public service mutual	Organisations that have 'spun out' of the public sector, continue to deliver public services and in which employee control plays a significant role in their operation (for example, staff share ownership or representation on the board). They can assume a range of legal structures, including charities, co-operatives and CICs.
Service area/sector	The service area or service sector is the broad type of service that a public service mutual delivers. Examples include health and education.
Service providers	A service provider is the organisation responsible for delivering a service. In the case of this report, this is normally the public service mutual.
Social enterprise	Social enterprises trade to tackle social problems, improve communities, people's life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community. And so when they profit, society profits.
Workforce capabilities	Workforce capabilities are the skills and experience of the staff. This can include commercial skills and ability to deliver back office functions among other things.

## Introduction

*We believe that whole swathes of the public sector could be delivered in this way and for the better.*

Brendan O’Keefe, Managing Director, Epic CIC

### Overview

The Cabinet Office has defined a public service mutual as:

- an organisation that has left the public sector (also known as ‘spinning out’)
  - which continues to deliver public services
  - has staff control embedded within the running of the organisation.<sup>1</sup>

There are a variety of legal, ownership and operational structures through which public service mutuals can operate. The ways in which employees are involved in decision-making processes are similarly diverse.

### Research Objectives

In October 2016, the government launched the Inclusive Economy Unit<sup>2</sup>, based in the DCMS. The Unit is leading across government on the development of a strategy to encourage and support the growth of public service mutuals. To inform the design of this strategy, DCMS commissioned CIPFA to collect a wide evidence base for the benefits, impact and challenges associated with spinning out as a public service mutual, through an online survey and telephone interviews.

The primary objectives of the research were to better understand:

- the features of public service mutuals
- the performance and benefits of existing public service mutuals
- the key drivers of successful mutualisation and public service mutuals’ ongoing performance and sustainability
- the challenges that public service mutuals face in development and growth
- what support and conditions are needed to deliver the government’s commitment to support a growth in public service mutuals.

The subsequent sections of this report outline the research process and findings.

---

<sup>1</sup> Mutuals Information Service ([www.gov.uk/government/groups/mutuals-information-service](http://www.gov.uk/government/groups/mutuals-information-service)).

<sup>2</sup> Government announces Inclusive Economy Unit ([www.gov.uk/government/news/government-announces-inclusive-economy-unit](http://www.gov.uk/government/news/government-announces-inclusive-economy-unit)).

## Executive Summary

This section features the key findings of the consultation, ie the feedback from a significant proportion of the respondents. The order of these key findings follows that of the detailed report.

### **Profile of survey respondents**

- Public service mutuals (PSMs) are diverse in terms of size, income, function and legal form. Ranging in size: from 1 (one) to 6,000 staff (FTE); and from £0.1m to £11.4m income. Offering services ranging from Adult Social Care to Youth Services, with around half (51%) established as a Community Interest Company (CIC).
- There is a strong culture of employee engagement among the participants, for example 79% have staff representatives on their board.
- Participating organisations were unanimous in their belief that mutualisation was the correct decision. The mutualisation experience has been described as both “a fantastic experience” and “massively worthwhile”.

### **Motivations, challenges and benefits of becoming a PSM**

- Participants have identified faster/easier decision-making and reduced bureaucracy as drivers of their success in developing better services and improving staff satisfaction.
- More than half of public service mutuals have reported expansion into new areas, awards of new public sector contracts and reduced dependency on their original contract.
- Drivers of mutualisation come in two forms: external economic factors (budget cuts); and an understanding of the benefits of mutualisation, for example 84% of respondents cited freedom to innovate services as a key driver.
- The process of mutualisation was seen as extremely challenging. Participants identified the need to have a strong business case and a robust and realistic business plan for spinning out. It was also considered useful to have access to independent legal and business consultancy services from the outset.
- A key capability that is absent in new public service mutuals is marketing and communications. The function is either adopted by an inexperienced staff member or neglected. This is considered to be detrimental given the perceived importance of marketing and communications in the early stages.

### **Support needed for PSMs to develop**

- Survey participants made recommendations as to the ways in which they could be supported by government:
  - offering continued political support and coverage by promoting the benefits of public service mutuals and their success stories
  - helping mutuals to market their service and culture to their stakeholders
  - operating as a central meeting point and information hub
  - (during the mutualisation process) by providing access to independent advisory services and financial assistance
  - (post mutualisation) by providing access to advisory support for expanding services and bidding for new work.

## Research Methodology

The research comprised the following aspects:

- background research to formulate the question content and conduct sampling
- online survey production and dissemination, including associated guidance
- 16 depth telephone interviews with sampled public service mutuals
- analysis of online surveys (mainly quantitative) and depth interviews (qualitative).

### Sampling

For the online survey, the sample consisted of 110 organisations. In total 67 mutuals part-completed the survey of which 60 responses were considered complete. Based on these 60 we calculate the overall response rate to be 55%.

For the depth interviews we drew a sample from the entire population of mutual organisations. Using the same population base as that for the online survey we drew a sample based on the following factors: region, legal form and service area. As far as possible the proportions for each of these factors reflected that of the total population. We also found that the age profile, determined by their incorporation date, meant that we were having detailed discussions with mutuals who had been trading between six months and five years.

### Online Survey

The online survey consisted of several areas, including organisation details, the mutualisation process, performance to date, and future ambitions. Questions were both quantitative (eg income, staff absence, proportion of ownership) and qualitative (eg examples of benefits, ambitions for the future, further comments). Some questions provided a range of response options, with the opportunity to provide additional feedback. The survey was accompanied with guidance on how to interpret the questions to improve consistency of responses. The guidance also allowed participants to prepare their answers before starting the online survey.

### Depth Telephone Interviews

CIPFA's research team held discussions with 16 public service mutuals. The discussions built on the themes of the online survey and covered motivations for spinning out, mutualisation, organisation characteristics, performance to date, operations and business plans and conclusions. Where possible, answers from the online survey were explored in more detail. Interviews lasted on average 45 minutes.

### Analysis

The analysis was three-fold, involving a quantitative analysis of the online survey questions, a content analysis of the open-text questions and depth interviews and a statistical analysis of the respondent profile.



The statistical analysis of the respondent profile illustrated the extent to which our respondents are disparate or significantly different. Alongside this there was also the extent to which responses to questions such as levels of staffing, income and pre-mutualisation funding differed, and the generally low numbers of responses overall, ie 60. Consequently two challenges arose:

- the issue of small samples, meaning that identifying correlations or extrapolating findings, based on a specified criteria such as ownership, would be on a statistically weak basis
- the extent to which the variation in responses meant that calculated figures such as averages could be highly misleading. For example, using the figure provided for the number of FTE staff, the range of responses was from a low of one to a high of 6,000. The average figure was 347. But statistically, based on a confidence level of 95%, the average is subject to an error of  $\pm 72\%$ , meaning that it could vary between 98 and 596.

Consequently the results presented in this report are done so on a headline basis.

## Response Profile

### Commencement of Trading

The majority (98%) of responding organisations are operationally live mutuals and 92% began trading from 2010 onwards, suggesting that the organisations are relatively new. In terms of legal structure, 51% of respondents are operating as CICs.

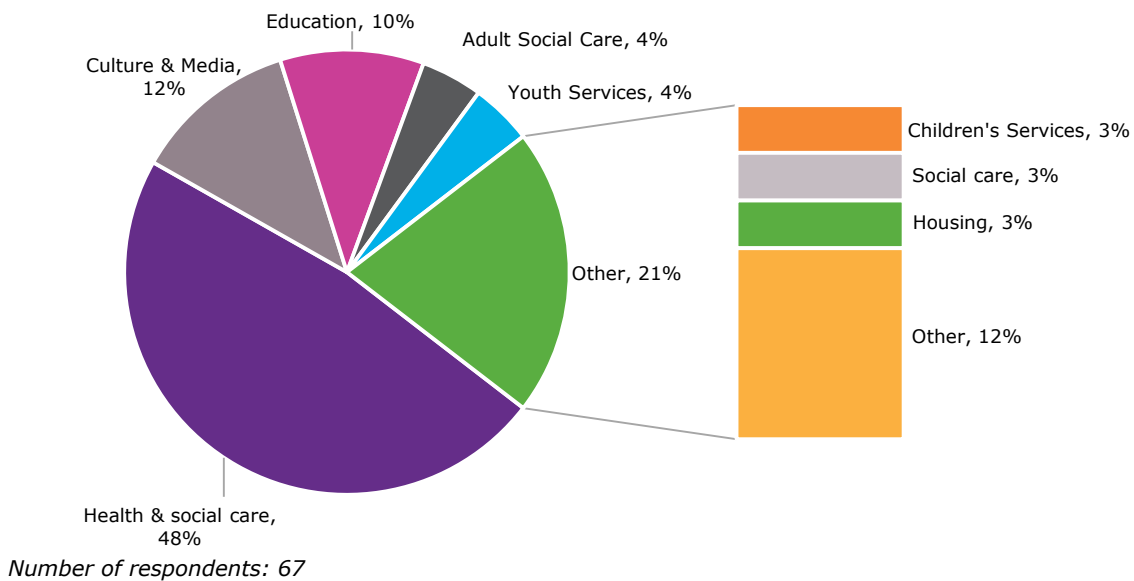
*The community interest company (CIC) legal form is designed for social enterprises that want the benefits of limited company status, do not want to be a charity, but want to provide benefit to the community. Community benefit does not have to be the sole purpose of the organisation; it is possible for a CIC to also benefit its members and/or investors.*

*Staff Mutuals and Public Service Delivery (CIPFA)*

### Sector

Almost half of respondents are operating in the health sector.

#### Sector of Operation

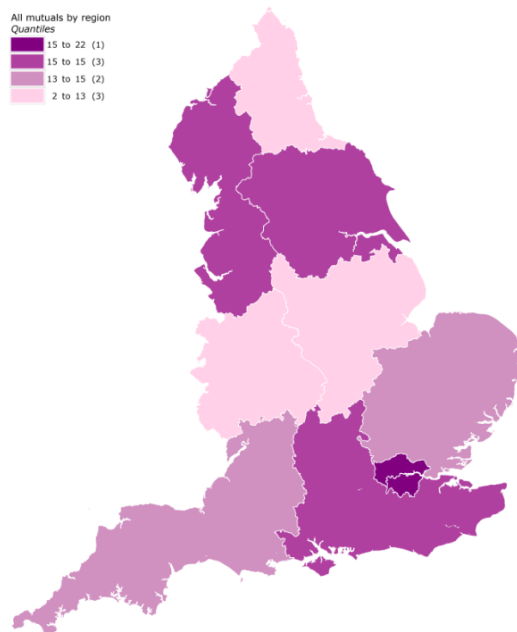


The table below shows the sectors identified by respondents in more detail.

Relevant Sector	Respondents	
	Count	%
Adult social care	3	4%
Central government	1	1%
Children's services	2	3%
Consultancy	1	1%
Culture & arts services	1	1%
Culture & media	8	12%
Education	7	10%
Habitat management	1	1%
Health & social care*	32	48%
Housing	2	3%
Justice	1	1%
Probation	1	1%
Research & participation services	1	1%
Social care	2	3%
Youth services	3	4%
Unknown	1	1%
Total	67	100%

\* Health and social care includes the following services: physical and mental health care; children and families; adult social care; public health; audiology; day-care; reablement; disabilities; community and primary health; pharmacy; therapy services; specialist wound; physiotherapy and osteopathy; interpretation and translation; dentistry; integrated health; GP services; learning disability; end of life; and lymphoedema.

### Location of PSMs



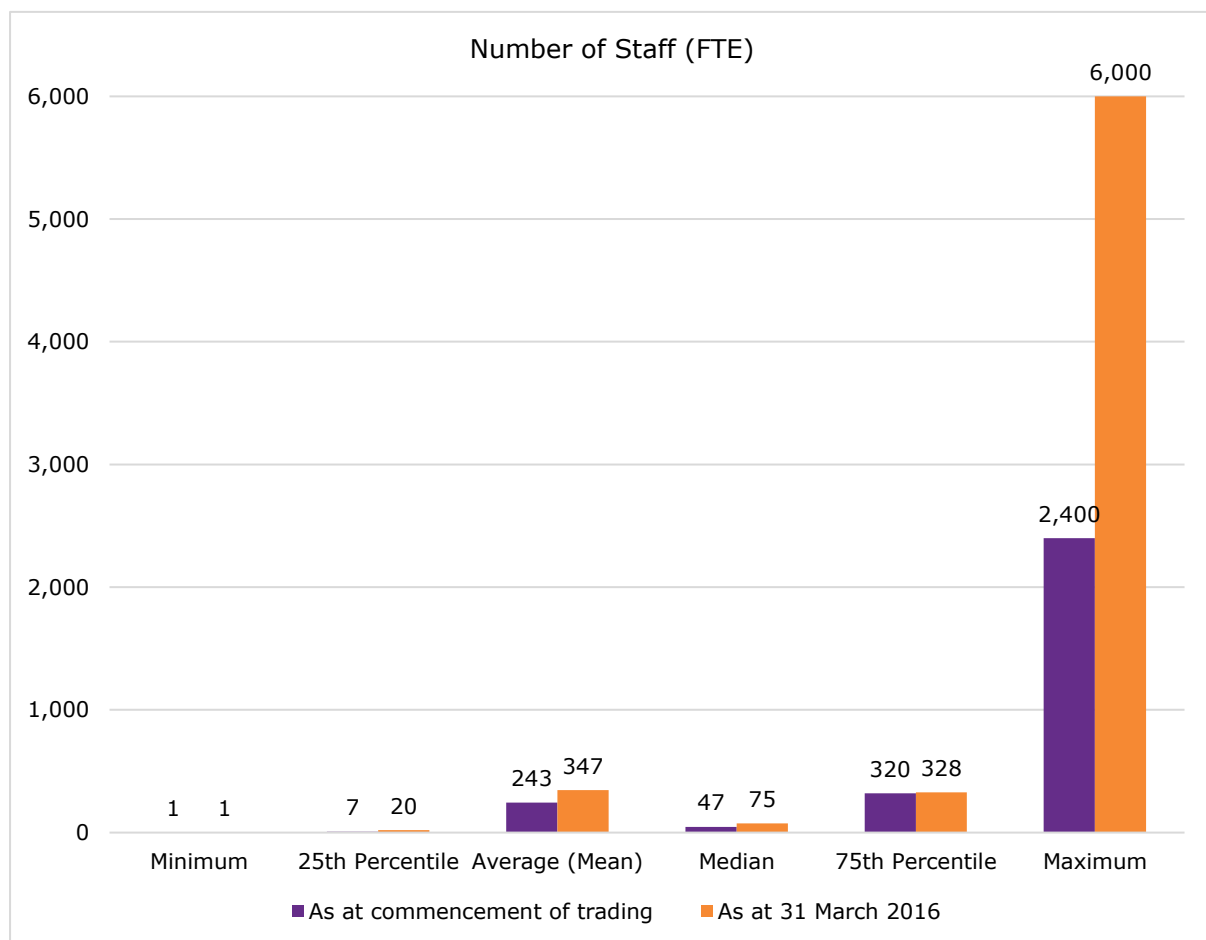
The above map illustrates the locations, by region, of those PSMs invited to take part in the survey.

## Employees at Organisation

Respondents provided figures for the number of FTE staff employed at the organisation at two points in time: at commencement of trading, and as at 31 March 2016.

The chart below illustrates the changes in numbers over time. For example, the average number of FTEs has grown from 243 to 347. This would suggest that generally organisations have grown, if not individually – we are not suggesting that one organisation has grown from 2,400 to 6,000 FTE.

However, what can be implied from this chart is that those who responded to this survey vary enormously in size, ie as at March 2016 this ranges from one to 6,000.

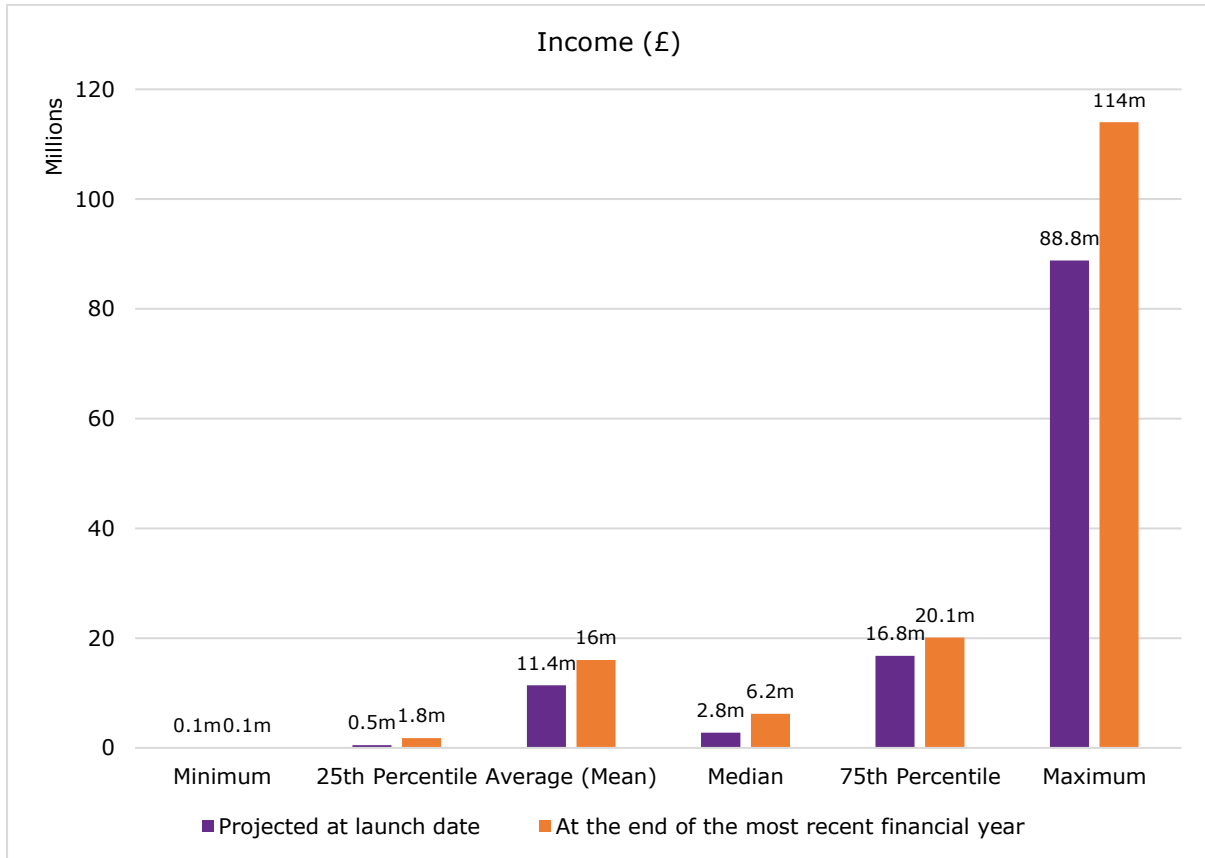


Another variation is in respect of the ratio between the number of FTE staff and the actual headcount. Of the handful of organisations we spoke to about this we found that this ratio varied from around 1:1 to approximately 1:2. Furthermore, in some organisations all employees were full-time and permanent whereas in others the workforce could be defined as 'casual', ie not necessarily counted as part of the workforce.

## Income

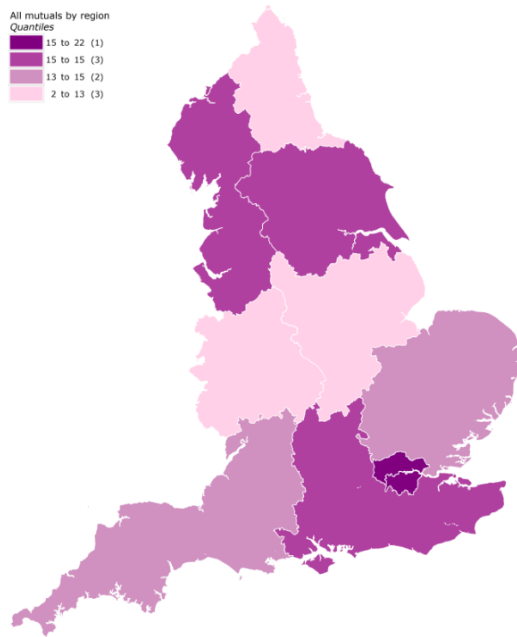
Operationally live mutuals were asked to provide their income as projected at launch as well as at the end of their most recent financial year.

As with the number of FTE staff, there is a significant variation between the smallest and largest organisations in respect of annual income.

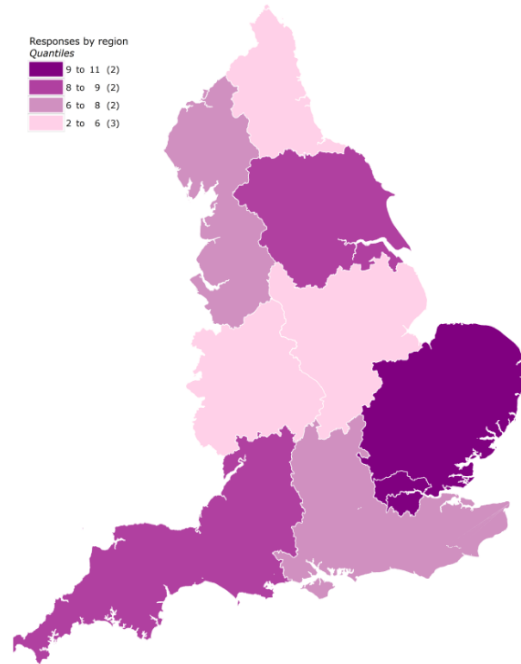


## Head Office Location

### Overall Profile



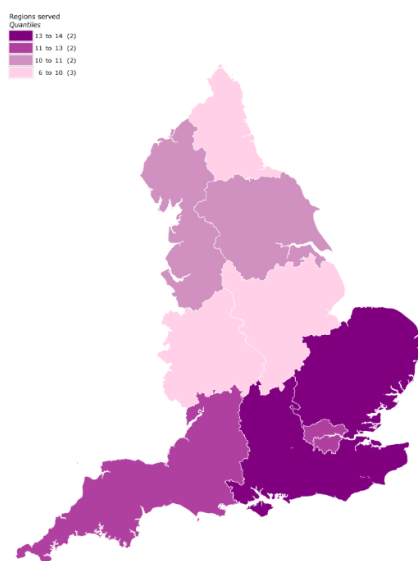
### Survey Respondents



The map above highlights the differences in head office locations between the overall profile of the sector and those that responded to the survey. Although there are some variations, there are similarly high numbers in the North and South, and similarly low numbers in the Midlands.

## Regions Served

Respondent organisations are serving regions across England, with the greatest levels of activity in the South, as can be seen in the map and table below:



Region(s) served	Respondents	
	Count	%
South East	14	24%
East of England	13	22%
London	12	21%
South West	11	19%
North West	10	17%
Yorkshire & the Humber	10	17%
West Midlands	8	14%
East Midlands	7	12%
North East	6	10%
Other	11	19%

Number of respondents: 59

Where stage of mutualisation is 'operationally live mutual'

## Motivations for Mutualisation

*Mutualisation can be driven by either the parent body, the service providers or both. Spinning out into a public service mutual was seen to offer benefits that would not be available if the service remained within the public sector. In the online survey, 84% of respondents cited freedom to innovate services as a key driver behind mutualisation. However, mutualisation was also driven by external pressures: the prospect of budget cuts to the service was a crucial factor discussed in the depth interviews. In these circumstances, the noted benefits of a public service mutual were a secondary consideration in the decision-making process although, once the need to make a change had been recognised, mutualisation was then seen as the best way to keep the service in existence while retaining its quality and values.*

Motivations for spinning out public services were mainly driven from two stakeholder groups: the parent body, which was attempting to achieve financial efficiencies; and the service providers, which were attempting to retain/protect the service.

One of the key drivers to mutualise was the inability to develop new services due to restrictive bureaucracy, including being tied into systems, processes and suppliers. Another perceived restriction was the ability to take risks, including investing in new services and expanding the workforce. Moreover there was a suggestion of staff disempowerment, whereby staff felt dissociated from senior management and like they did not always have a voice in key decisions. It was felt that the increased freedom would allow organisations to take more risks, provide innovative services and develop their business.

There were some concerns that the service would cease to exist if it did not spin out from the parent organisation. Austerity measures and budget cuts may have led to services being restructured, reduced or sacrificed. This would have resulted in either a decline in service quality or a complete removal of important community assets. It was felt that spinning out would provide a more active control over service quality and ensure that those making business decisions had a clear knowledge of the service.

Other motivations included:

- to be in a better position to influence agendas impacting on their service
- to adapt to new policy changes in a more controlled manner, rather than through a rushed transformation process.

The online survey identified that key motivations for spinning out were to provide staff with more freedom to innovate service delivery (84%); to improve service responsiveness to users (70%) and to improve impact on social outcomes (70%). Feedback from the interviews suggests that these motivations are interlinked: increased freedoms allows organisations to respond more quickly without process barriers.

## Motivations for 'spinning out'



Number of respondents: 58

'Other' survey responses were:

- to retain services and/or deliver savings
- to manage 'outwards' not 'upwards', focusing on the client
- to increase service provision and impact.

Some organisations considered alternatives to the public service mutual structure, including outsourcing the service to the private sector or adopting different formats. One alternative was for the service to be taken over by a larger organisation, but there were concerns that the organisation would not share the same aims and values as the staff. Initial advantages of the structure were perceived to be the ability to remain independent, to keep community interests at heart and retain core principles.

However, it is apparent that several organisations had little option but to spin out to avoid their services being drastically cut or cancelled completely.

*They were all about being able to provide better services [...], to be able to look at different opportunities in different areas, and really to have that power and control to be able to be led by our values and our vision, rather than the needs of the [parent body].*

*[Staff] knew how to deliver a good service and they really wanted to have some additional freedom from the public sector rules [...] and they thought actually this is a prime opportunity to spin off and set that up as ourselves.*

*There was a risk that we saw that our service would be taken over by a larger organisation that might not share our passion and our vision for the service [...] we had an opportunity at that point to create our own organisation and to bid for our own contract and secure the service in the way that we felt it deserved.*

*Primarily financial, but also a real desire on our part and on the part of the [parent body] to maintain valuable services even if they are not statutory.*



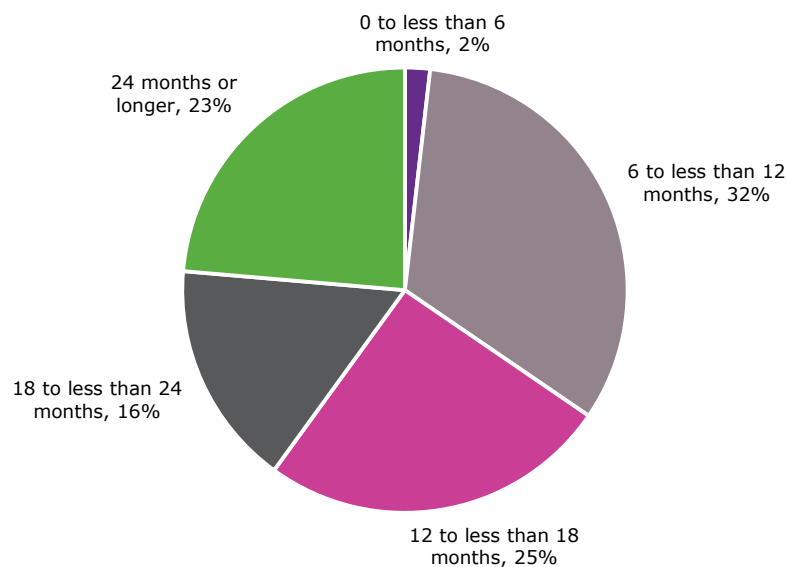
## The Mutualisation Process

*The process of becoming a public service mutual was widely noted by participants to be extremely challenging. This is mainly due to lack of information about the mutualisation process and its implications, lack of understanding and support from the parent body and the need to make the case for mutualisation to staff. In the depth interviews, successful public service mutuals emphasised the need to have a strong business case and a robust and realistic business plan for spinning out. This was deemed essential both for obtaining support from the parent body and also for determining the future viability of the business. During the process, it was necessary to keep staff informed and engaged in order to alleviate concerns. New public service mutuals found advisory support very helpful. This came from a variety of sources including networks aimed both at public service mutuals and at social enterprises more generally. In addition, they found advisory and financial support from the Cabinet Office helpful. In general, it was clear that organisations that had spun out earlier had received more financial support from all sources compared to organisations which have spun out more recently. As well as financial support, participants suggested that it would be useful to have access to independent legal and business consultancy services during the early stages to help with establishing the organisation's legal form and writing the business plan as well as to assist during negotiations with the parent body.*

### Overview

Overall, the mutualisation process was a steep learning curve for most of the organisations that we spoke to; this may reflect the fact that nearly a quarter of survey respondents said the mutualisation process took 24 months or longer:

### Length of Mutualising Process

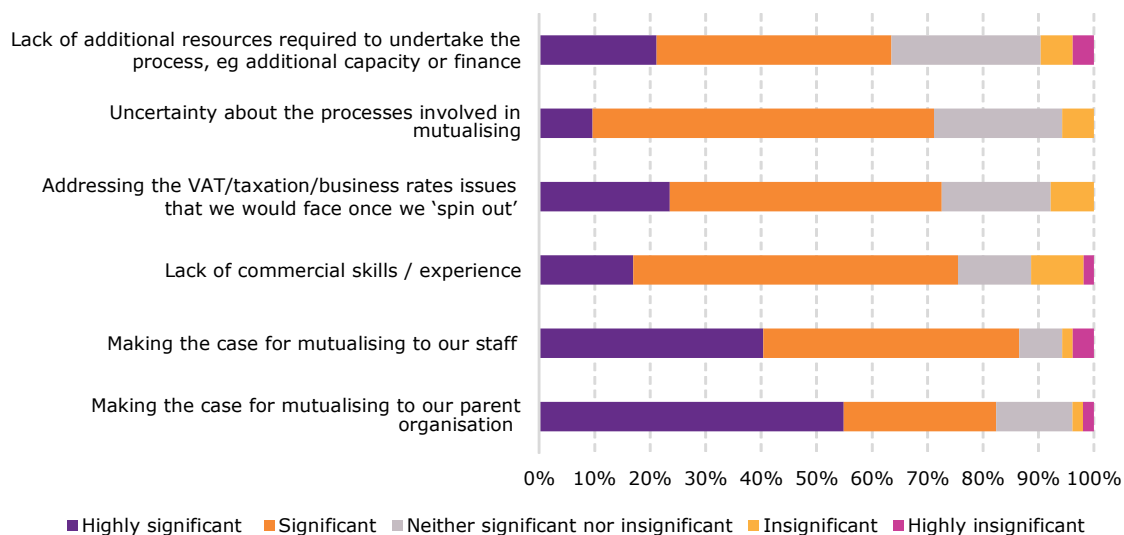


Number of respondents: 56

## Key Challenges

The majority of respondents suggested that mutualisation was a challenging process. Key challenges are outlined below:

### Key Challenges to Mutualising



Number of respondents: 51 to 53

## Obtaining High Level Support

It was noted that high level support and corporate sponsorship was crucial to the mutualisation process. In several cases there was a lack of understanding about alternative delivery markets and the intricacies of the spinning out process.

This resulted in hesitancy from parent bodies about whether spinning out was a suitable solution and also from external parties about whether they should invest in the business. Other parent bodies might have been aware of the mutual form, but were daunted by the complexity of the spinout process. Additionally, some employees were concerned about how their terms, conditions and rights would have been affected by the change.

*I think morale and motivation of staff was a risk, so we did a lot on information and communication and I think we learned a valuable lesson during that period.*

## Making a Case for Change

It was seen as important to produce a comprehensive business case for changing the business model, ensuring that the service provision and strategy (function) was clarified before considering the organisational model (form). Demonstrating the benefits and potential of spinouts from the outset helped to reduce uncertainty and indecision. In some instances there were stages of negotiation, particularly when systems and responsibilities were changing hands. In a couple of instances there was resistance from trade unions who were concerned about the impact on staff, including any proposed changes to employee policies, terms and conditions, or pay and rewards. A suggested solution was to involve unions in board meetings and keep them informed of

developments. Some organisations included other key stakeholders on their project boards, such as staff from HR, finance, IT and legal departments. It was suggested that the board members should be reviewed over time to ensure that there is a suitable skill mix for long term service delivery.

Related to this was proving that the service was/is a viable model, both financially and in terms of its future growth potential. This involved conducting market research and not making assumptions about available opportunities. This also included looking at the implications of spinning out in terms of capacity, workforce and management. Without a clear business plan, it is more challenging to demonstrate to governors and investors that the mutual will sustain itself (financially and operationally) beyond the initial stages. Other strategies might be required for diversification and identifying sources of income. A respondent advised that the prospective mutual should have its own finance and legal consultants, else the parent body will have to represent the interests of both parties.

*You've got a great idea. You think it's the right thing to do. How do you then convince somebody else that they should take a chance on you and invest in you above everybody else?*

## **Encouraging Staff Involvement**

Respondents also highlighted the importance of involving staff in decision-making from the outset. This provided a sense of staff ownership, empowerment and investment in the organisation. It also provided organisations with the confidence that decisions were being held to account, and that cultural values were adequately defined and remained in place throughout the process. Some organisations held staff consultations and engagement opportunities. The morale and motivation of staff was a perceived risk and there were also concerns from staff that services were going to be closed. Consequently, keeping staff informed throughout the process was crucial. Staff groups were also used to provide a sense check of decisions and to offer a different perspective. A considerable challenge was developing the staff's understanding about what the transition meant for them and engaging the staff in determining the values of the new organisation.

*I would say that the initial piece of work that needed to be done was to really engage with [employees] on the reasons why we're here [...] and really getting our social purpose embedded. Then [...] actually how our commercial response to that could improve our service offer. So, we've spent a lot of time looking at the shared values and behaviours that we believe makes us unique in what we do.*

## **Improving Commercial Skills**

There have been different approaches in terms of instilling a sense of commercialisation. It was suggested that some organisations had a lack of commercial acumen, financial knowledge and business development skills. These skills related to:

- seizing opportunities/entrepreneurship and cross-selling
- market research
- marketing and communication, eg building websites
- pricing strategies
- cost association/budget management
- working in a competitive landscape
- being light on your feet
- service partnering

- performance management and reporting (where staff had been promoted)
- back office administration.

In some cases it was 'middle managers' leading the change without experience of high-level leadership. One respondent said that their staff had plenty of ideas, but understanding of what was legally and financially possible, or economically advantageous. Respondents suggest some solutions, including:

- integrating commercial skills into development leadership programmes, ie improving the knowledge of the service managers who are now part of the senior leadership team
- investing in commercial/business training
- bringing in management capability and professional advisors
- independent research about establishing a new company and how to manage people, money and resources
- taking support and advice from existing networks.

*I think there's a different attitude within a [...], as there is in a commercial organisation, and we've really spent a lot of time working with staff about developing that mind-set.*

## **Building Internal Processes/Infrastructure**

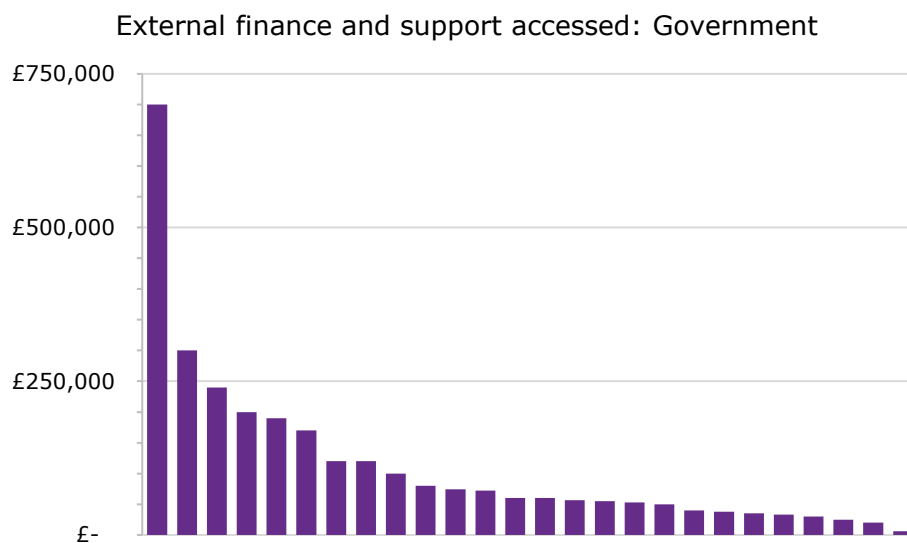
Aside from the staff's commercial knowledge, internal processes needed to be developed so that they could manage cash flow, balance sheets and other areas. It was acknowledged that some staff members had taken the added responsibility for business decisions with enthusiasm; some had taken time to adapt; while others were yet to adjust to the change. During subsequent recruitment phases, some organisations sought staff that were happy to work within the spinout culture. One organisation noted that staff had to take on additional responsibilities, including managing PR such as social media.

Some respondents suggested that their parent body had little/no infrastructure or knowledge about the mutualisation process. In such circumstances organisations used networks including local discussions or informal support from existing mutuals and social enterprises. Consultants were also utilised for support and advice, including amongst others Social Enterprise UK, the Employee Ownership Association, Baxendale, Mutual Ventures and Stepping Out. These organisations provided technical support, and assistance with staff management, business plans and establishing legal forms. There was also support in the form of mentors, lawyers and transition directors.

*We found as we entered this world of social enterprise, a world of which we knew nothing a few years ago, there are many incredibly able, charismatic and gifted people who just want to support other social enterprises.*

## Support Accessed

Of the 60 responding organisations only 22 (37%) indicated that they had received financial support **from government** as part of the spinning out process. This came from a variety of sources including the Cabinet Office Mutuals Support Programme, the Social Enterprise Investment Fund (SEIF), the Investment and Contract Readiness Fund (ICRF) and the Rural Enterprise Investment Programme (REIP). What is noticeable among these 22 organisations is the varying level of monies received, ranging from £6k to £700k, although it should be noted that the £700k was awarded in 2007. More typically we find that in three-quarters of cases the value is of £120k or less. Furthermore, of these 22 a total of three organisations attracted monies from more than one source or over various points in time.



The support offered by the Cabinet Office was generally seen as useful, particularly for those that were able to access funding from the Mutuals Support Programme. It was, however, suggested that this support was more readily available during the first wave of spinouts. Additionally, a respondent felt that several organisations were going through similar legal processes but were being given generic advice independently. This advice could be centralised to prevent the same questions being asked.

*We were heading into a very commercial market which historically the public sector hasn't been [...] it was critical we had the support to make sure we were business savvy as well as staying true to what we wanted to achieve as a mutual.*

Some examples of support accessed are listed below:

Government	<ul style="list-style-type: none"> <li>Advice on forming a social enterprise</li> <li>Advice on legal form</li> <li>Advice with contracts</li> <li>Assistance from the Mutuals Support Programme</li> <li>Bid writers</li> <li>Business consultant support to support project development</li> <li>Feasibility studies</li> <li>Forming articles of association</li> <li>Grants</li> <li>Marketing and branding support</li> <li>Property accrual</li> <li>Social Enterprise Investment Fund</li> <li>Working with advisors/consultants/lawyers</li> </ul>
------------	--

Parent Body	<ul style="list-style-type: none"> <li>Cash to develop an alternative delivery model</li> <li>External validation of business plan/case</li> <li>Financial advice</li> <li>Funding for legal support</li> <li>Funding for project manager to act independently from the parent body, to protect integrity</li> <li>Funding for staff</li> <li>Independent legal, financial and marketing/branding support</li> <li>Opening balance/working capital/investment money</li> <li>Options appraisal</li> <li>Paid for initial finance system and consultant costs</li> <li>Programme management</li> <li>Staff time to develop ideas and legal support</li> <li>Support from council officers</li> <li>Support with pensions</li> <li>Website, computers and software</li> </ul>
-------------	---

Existing Public Service Mutuals	<ul style="list-style-type: none"> <li>Help with HR policies and procedures</li> <li>Informal peer support through professional networks</li> <li>Local discussions with other public service mutuals</li> <li>Paid/free support and advice</li> <li>Visits by peers to talk to staff and stakeholders</li> </ul>
---------------------------------	---

## Additional Support

Respondents identified several areas where further support would be useful in the initial stages, including: contract readiness; policies and procedures; business planning (including growth); marketing; legal forms/challenges; pensions; back office administration and market research. Support for an independently administered decision-making process might also prevent decisions being emotionally driven. Furthermore, parent bodies do not always have the right skills to manage the transition effectively, and there may be lack of understanding from the body about how a mutual's finances should operate. Workshops could be facilitated to help explain the process.

## Characteristics

*The majority of survey participants have a legal form that involves whole or partial employee ownership. Of these respondents, 50% are wholly owned by their employees. Another common form is the private company limited by guarantee. The choice of legal form often results from the aims and values that the new organisation is intended to embody. Other influences on the choice of legal form come from experts and the parent body of the spinout.*

*Regardless of the legal form, there is a strong culture of employee engagement among the public service mutuals participating in this research. For example, 79% of respondents to the online survey have staff representatives on the organisation's board. The depth interviews demonstrate that this culture requires time and effort from senior management to embed fully in the new organisation.*

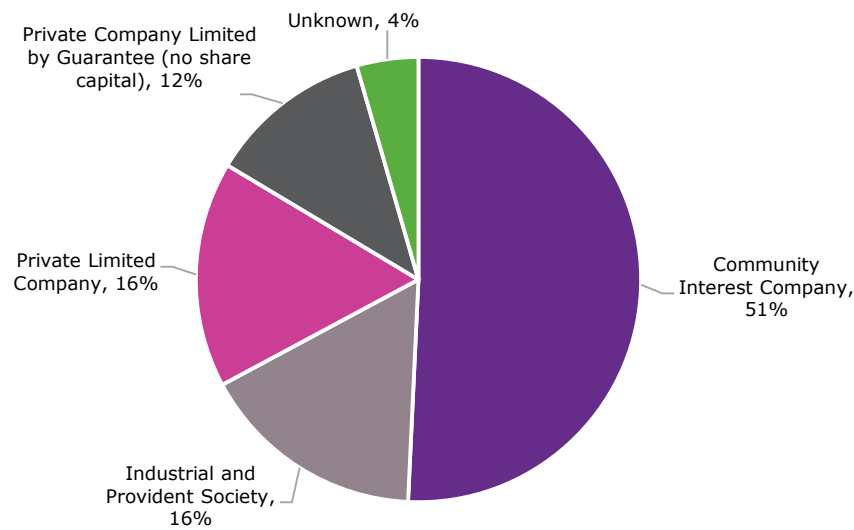
*Managers have explored different ways of expanding the reach of their organisation and delivering the promised services more efficiently and cheaply. One way of doing this is partnerships – interview participants described a variety of formal and informal partnerships aimed at achieving these aims. The type of partnerships in which an organisation is engaged depends on its unique objectives. Managers have also identified the capabilities of their staff as an area for improvement. In particular, commercial skills can be lacking in staff who come over from the public sector. These gaps are addressed through training of existing staff or the recruitment of new staff who already have the desired skills.*

*A key area where the new public service mutual must quickly build a capability is back office functions. Organisations must choose whether to outsource these functions or establish them in house. This decision is primarily predicated on cost. A final issue which arose multiple times during the depth interviews is marketing capability. This function is not generally outsourced but, equally, the capability is not usually present in the new public service mutual. The function is therefore either adopted by an inexperienced staff member or neglected entirely. This is considered to be detrimental to the new organisation given the perceived importance of marketing and communications in the early stages of its development.*

## Legal Form

The following chart shows the legal forms of organisations responding to the online survey as described by the respondents. The majority of respondents to the survey are CICs (51%). The second chart shows the types of shareholders within these legal forms. The most common type of shareholder is employees while just two respondents have a private sector shareholder.

## Legal Form

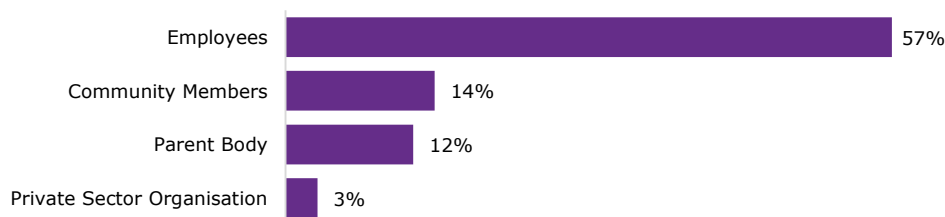


7

Number of respondents: 67

There may be some overlap between the 'Private Limited Company' and 'Private Company Limited by Guarantee' categories because this survey question allowed respondents to define their own legal form in a free text response.

## Types of Shareholders



Number of respondents: 58

Respondents can have more than one type of shareholder.

The respondents to the depth interviews have a variety of legal forms from 100% employee ownership to part-ownership by private sector partners. In general, the form chosen was viewed at the time as the best way to reflect the desired aims and values of the organisation and the choice was often influenced by the parent body or external legal advice. Other considerations included:

- retaining public sector employee benefits
- taking an approach that benefits the whole community rather than a select group of shareholders
- involving the community or clients in the organisation
- obtaining funding available to social enterprises
- political considerations.

CICs are considered to offer more strategic control to the directors and to be a more flexible option than a charity. External board members can provide a useful alternative perspective either from a business or from a client point of view. Downsides to the chosen legal form tended to be unique to each organisation interviewed and included:

- lack of representation of young people, a core part of one organisation's community
- lack of non-executive directors on a co-operative's board. The CEO of the co-operative in question was mitigating this absence of external support and advice through participation in an informal network of similar organisations



- corporation tax liability means that the organisation tries to limit their profit by reinvesting it immediately which restricts long-term planning
- in an organisation owned solely by its clients, employees do not have a formal voice on the board. In addition, in the same organisation, the representatives of the clients have other work priorities, which can affect the speed at which strategic decisions are made by the board.

*I think the overarching reason why CIC was chosen was everybody got together to do the right thing for the community and have the community interests at heart.*

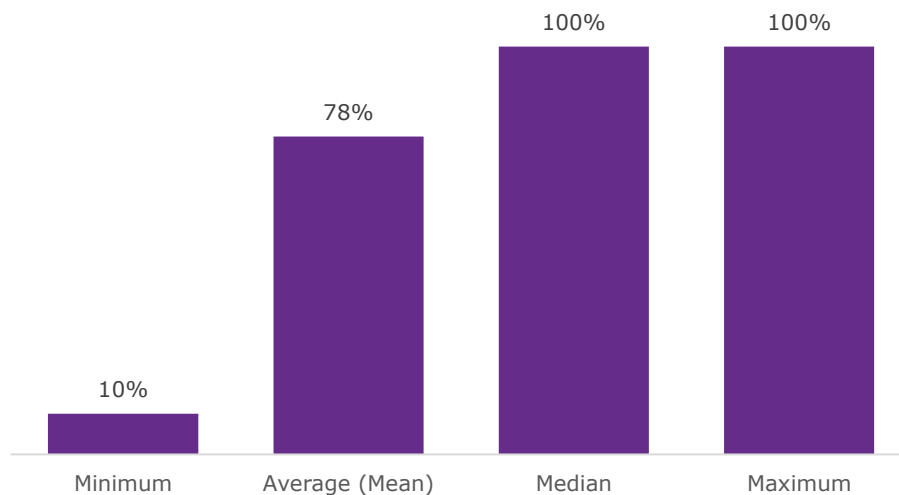
*I know there's some funding streams that we can't access because we're not a charity, but they're limited, and actually the upside of being able to make decisions quickly and effectively has put a much bigger benefit than the limitation, which are fairly minor on funding that we could go for.*

*[T]he bureaucracy that comes with a charity, registration everything was a bit of a turn off, whereas the CIC form is very similar in governance terms, from a running it point of view, very similar to a private limited company and it's only one additional return with your CIC report at the end of the year.*

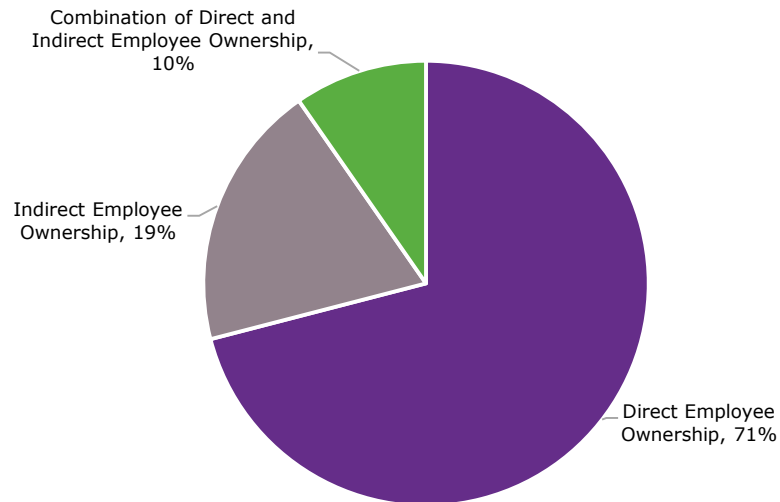
## Employee Engagement

57% of online survey respondents have employees as shareholders. The average proportion of these organisations owned by employees is 78%, with 50% of respondents being 100% employee owned. 71% of these organisations have a direct employee ownership structure.

### Proportion of Organisation Owned by Employees



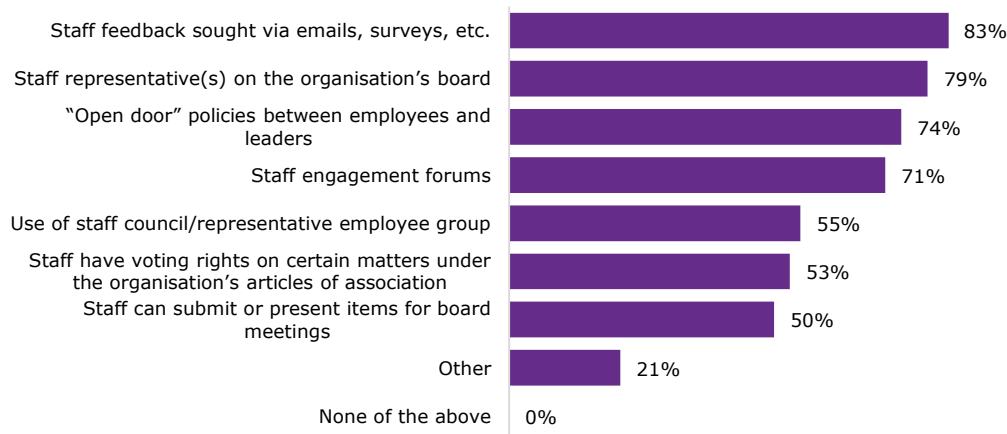
### Type of Employee Ownership



Number of respondents: 31

Even in organisations with no employee ownership, there is a formalised structure for employee engagement and participation in decision-making. For example in large organisations, a typical approach is to have individual representatives for each area and an employee committee that is represented at the board level by one or more employees depending on the legal structure. In smaller organisations, this engagement process may be more informal because senior management have more direct contact with all employees. The table below shows the mechanisms for employee control and engagement among respondents to the online survey.

### Mechanisms for Employee Control



Number of respondents: 58

In the depth interviews, respondents from organisations with an established process were generally very enthusiastic about it, claiming that employee engagement is much higher with staff more aware of their role in the organisation and how this connects to wider objectives. There is more of a sense of community. The relationship between senior management and staff is often perceived to have improved and interactions between the corporate team and employees are more productive. Employee committees hold senior staff accountable. However, one respondent suggested that participation in corporate activities takes valuable employee time away from the core activities of the organisation.

A key theme that emerged conversationally is that it often takes several years for this to embed in the culture and become effective and that it needs to be driven by an intentional commitment of time and effort by management. One recent spinout said that they had had difficulty suitably defining what 'employee ownership' means for their organisation. This lack of focus was reflected in the most recent AGM which only five out of 90 staff had attended. Another organisation with only 12 employees said that they felt that they had not yet exploited their legal form to its full advantage, citing an inability to afford more senior staff to share a heavy workload as the reason.

*We have an employee committee and our employee committee is represented on both boards both the trust board and the limited board which means they have direct access to boards, they also have six weekly meetings which I attend. I attend for the second half of every meeting which means they feed directly back to the MD and then I take responsibility for taking that back to the boards as well. So we have a problem at a board because I have already flagged up the issues that the employee committee have got and what we are doing with them, so that kind of works really nicely.*

*What we've done is released a chunk of time from people in the staff mutual to say that's development time. So they're then influencing those day to day operations at that level. What we talked about earlier is the staff mutual also has a seat on the [strategic decision-making] board, so they're able to therefore influence the strategic direction of the whole group as well.*

*You know, some people really don't want to engage with that [the strategic direction of the organisation], they just trust us and want us to do the right thing and others really want to be involved and influence that decision.*

*[W]e've invested heavily in the employee ownership model, as we are 100% employee owned, to really get them engaged in the outcomes that they wanted to see delivered. So, that's been quite a big piece of work for us.*

*I think it works particularly well. It is very interesting because we have got some challenging people on there [the employee committee], but actually what it did is it gave the rest of the business confidence that we were being held to account... They've helped work seriously with us on values and helping describe and define the company values at the time... the employee committee are representing views in a much more grown up way [than a trade union board], because they are co-owners of a business, not in a confrontational way.*

## **Partnerships**

Reflecting the diversity of the participants in this research, the types of formal and informal partnerships in which they are involved are equally varied. However, some motivations for partnering do emerge, specifically partnering:

- to access a workforce to fulfil a contract
- to compete against large organisations
- to counteract the effect of being a small organisation during a bidding process
- to expand the organisation's reach in addition to bringing commercial value
- to move into different geographical areas
- to share experience and best practice
- to take advantage of the partner's specialist knowledge
- with organisations with a similar background or with similar values.

*[C]ollaborations are very much in our mind and developing those much further, rather than just... spending a lot of time competing with each other, I am not saying we are trying to stitch up the market but it is a race to the bottom, in that we are cutting each other's throats for price and then eventually the poor local authorities are either getting a dud service or they are getting no bidders because nobody can meet the lower end of the price threshold and this is taking everybody down in my view. So, collaboration between providers but also with the parent public bodies, that are procuring the services, I think the way local authorities should be thinking about their relationship with providers is much more in terms of joint venture rather than just a provider which is a very sterile and over commercial way of looking at the public sector.*

*I think we are okay, there were times guys got carried away and wanted to create a partnership, where we will look at it and say absolutely not. They are the wrong kind of people, or they have got a wrong track record, or they are not the same culture, ethos and value set that we adopt, and that's interesting. Because we are employee owned, if we can find alternative employee owned businesses to work with or kind of spend time with then there's a much better culture and ethos and fit, particularly with ex public services, the health guys love it and the guys from the local authority sector do love it as well.*

*[B]ecause we are small, we have learnt that we need to partner with bigger organisations if we want to be part of bigger contracts.*

## **Back Office Functions**

Respondents take one of three approaches to their back office functions:

1. run all back office functions in house
2. outsource all back office functions to the parent body or to an external organisation
3. a combination of 1 and 2.

The choice requires an individual assessment of the cost and convenience of having the functions in house. For a few organisations, the original intention was to keep these functions with the parent body but the plan had to change due to difficulties with negotiating this shared service. One organisation which had a difficult transition said "where we can be self-sufficient as we can, we are". Another organisation found that after a few years they could afford to replace an antiquated local authority IT system with a new system. Where organisations have taken back office functions in house, this generally required hiring new staff members to deliver them.

One of the main areas which is not normally outsourced is marketing and communications although many respondents could not afford a dedicated staff member at their inception. This meant that this area was either adopted by an inexperienced employee as an additional role or was neglected entirely. As will be discussed later, marketing is a key area where respondents felt that extra support could have been provided by central government or their parent body.

*In terms of our back-office staff, we took the decision very early on that we would outsource anything that wasn't focussed on children and young people. So, all of our IT, HR, Payroll, all of that stuff is outsourced. That's been really easy, we've just asked for more of it. Because we've outsourced it to specialist companies, that's been really smooth because they've just been able to pick up the slack within the team.*

*From our perspective, it just suits us to be able to call on external legals and external, when I talk about external finance, it's mainly the tax specialists and audit specialists because we don't need them constantly.*

*But, you know, our first day coming out, we- we needed to have our own website, we needed to have our own Twitter, our own Facebook, we needed to be able to manage communications, we had no comms at all... But we did things like manage to shift our staffing around a little bit so that one lad who was quite good on Facebook and Twitter became our comms officer [...] but that was [...] the only scope, we didn't have the money to go out and say we need a communications officer [...]. So we've had to sort of rearrange ourselves and skill ourselves up to do these jobs.*

## Performance and Benefits to Date

*There is close to universal agreement that post spinning-out public service mutuals are finding it far easier to become fletter of foot in their decision making. Some 91% of our respondents agreed that a key factor in driving benefits is 'faster/easier decision making'. Perhaps the most conclusive outcome of this is that we are seeing the roll out of 'more innovative services'. Certainly examples are aplenty, eg new services are being rolled out, a wider audience is being targeted/served and more jobs are being created.*

*They have also been a number of reported 'freedoms' associated with spinning-out. These include: applying for external funding; lighter touch or non-existent (formal) performance indicators; diversification of funding; and adaption of business plans. Alongside this, and even where there has been significant growth, public service mutuals of all types are reporting increasing levels of satisfaction amongst staff and clients. Although not conclusive by any means, but higher levels of staff satisfaction are being reported alongside reductions in sickness levels and the increasing role played by staff in service development.*

### Performance

Participants in the depth interviews were very upbeat about their performance although a small number did confirm that some aims have not yet been achieved. Isolated examples of non-achievement include: a (current) lack of financial independence; inability to pay NHS pension contributions for all staff; employ more people with disabilities, particularly those with a learning disability; and closing down old not fit for purpose properties and investing in new bespoke designed premises in order to be more client-centric. The sole recurring theme was the need to approach marketing in a more structured manner. One respondent commented:

*[...] there's some aspects of being able to break into some markets, particularly London has been really difficult. It just seems there's a culture there of people from outside London do not understand London [...]*

There is also a varying degree of performance measurement taking place across the sector. Some measure performance on a very light touch basis, or in some cases barely at all while others have systems in place to monitor an ever increasing plethora of measures.

From a positive perspective and across a wide number of measures public service mutuals are reporting improvements of varying magnitudes in a wide range of measures. Albeit that some measures are merely anecdotal rather than formal performance indicators or based on management information such as income and expenditure. From a more qualitative perspective respondents are telling us that:

- staff survey results are improving as are levels of productivity
- stakeholder relationships are improving
- satisfaction ratings are improving
- (social) impact assessments are being undertaken
- there is an increased ability in taking care of clients holistically

- commercial capabilities or entrepreneurship skills are growing, ie more innovative or creative thinking
- there are increased levels of staff retention.

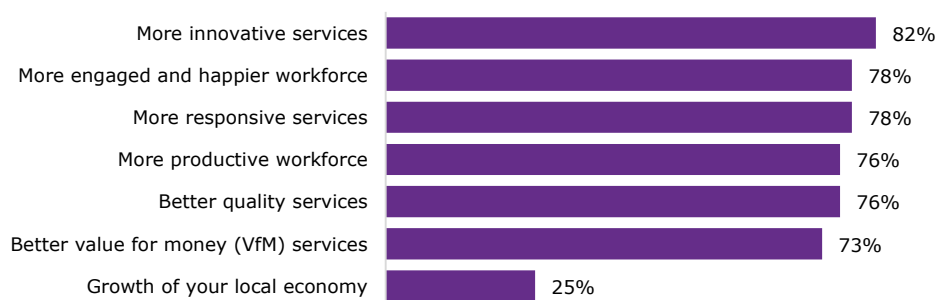
*[...] 95% would recommend us as a place to work.*

*We have done an impact study recently actually, the benefit to young people in the community. One of our benefits to the community is that we employ a lot of local people and also we recruit volunteers year to year from the local community as well.*

## Benefits

We asked participants to the online survey: Since becoming a mutual, what benefits have you seen? The chart below reveals that the most popular choice was 'more innovative services':

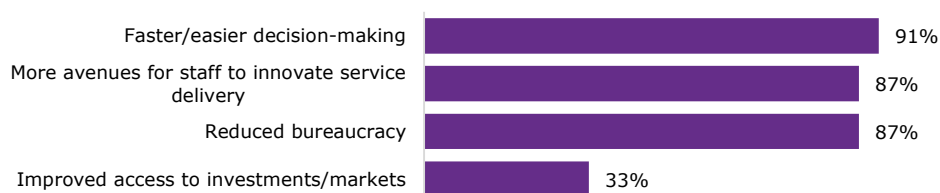
### Benefits Resulting from Mutualisation



Number of respondents: 55

We also asked what had been instrumental in driving these benefits. The most important factor was faster/easier decision making:

### Benefits Drivers



Number of respondents: 55

It would appear that the benefit drivers 'reduced bureaucracy' and 'more avenues for staff to innovate service delivery' correlate strongly with delivering 'more innovative services'. In numerical terms, of the 48 respondents who ticked the 'reduced bureaucracy' option, some 44 also ticked 'more innovative services' (92%). While of the 47 who ticked 'more avenues for staff to innovate service delivery' option some 43 also ticked 'more innovative services' (91%). No other combination achieved a score higher than 90% however a further three combinations were close to this benchmark:

- more avenues for staff to innovate service delivery AND More responsive services (89%)
- reduced bureaucracy AND More responsive services (88%)
- faster/easier decision making AND More innovative services (88%).

*"Being a mutual has enabled us to establish a service with specialised and passionate staff who are able to adapt services to meet the needs of our patients in innovative ways. We are able to make decisions more rapidly to meet current needs and/or demands. The combination of the mutualisation process and becoming a not for profit social enterprise works extremely well."*

*"We couldn't go back because we know this is the right way to do things, we know it works and the idea that we would have to go back and do things the old way is inconceivable."*

*"From our perspective thus far it was a painful journey but massively worthwhile, both in terms of the [...] ownership that people now feel of the organisation [...] but also the opportunity- the opportunity's massive."*

*"It's just been a fantastic experience and I'm really, really grateful I had the opportunity to do it because I've been allowed to create an organisation which has created jobs for a lot of people. That's been really satisfying to know that."*

*"It's been quite liberating to see the energy within the company, and the enthusiasm from the workforce to change things. It's also exhausting!"*

*"It might have just been a job whereas actually now what this is, yes it's a job but it's also a livelihood and a passion. We all stand or fail together and what we tried to achieve at the start, masters of our own destiny, from here forward."*

*"In terms of the community benefits, I think our quality's better, we're doing more for the money so that's value for money for commissioners. We get loads of fantastic compliments, the quality culture is definitely still rare, we understand what the social value is of what we're doing."*

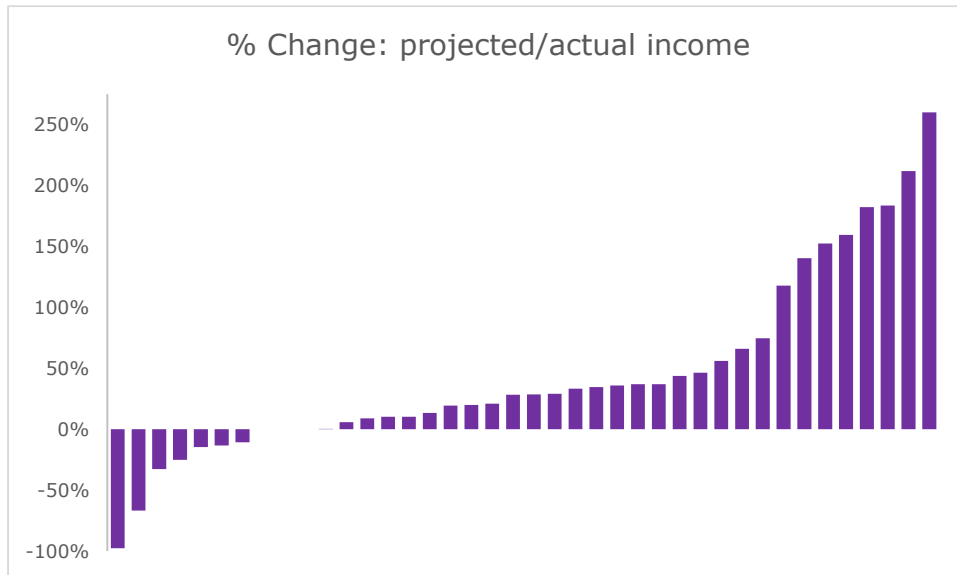
*"The main principles of the company are personal responsibility, mutual accountability. So, each person takes responsibility for sourcing it, not for handing it to somebody else, and if they can't, they ask for help. So, I think there's that, there's the trust, it's trust. Trust is a real strong component of the culture."*

*"It's hard to create and run a PSM but we have no regrets and we will never go back to old ways of working. We have seen the benefits the model creates – better services delivered by more focussed and motivated staff, better VfM due to a much greater understanding of and control of our costs, much quicker decision making, and improved opportunities for innovation. We believe that whole swathes of the public sector could be delivered in this way and for the better."*



## Income and Expenditure

Most are reporting that their organisations (businesses) are expanding, ie turnover (income) is increasing. Of the 42 organisations who provided projected and latest income figures 31 (74%) exceeded their original projection figure. The chart overleaf illustrates the range of responses but excludes two organisations that recorded changes that exceeding 1000%.



Meanwhile, costs (expenditure) are down which has meant that savings are being used in a number of ways including:

- helping offset against future cuts in funding/contracts
- providing a shareholder bonus, eg Christmas gift vouchers
- putting money into reserves
- reinvesting money back into services
- settling loans sooner than predicted
- undertaking sponsorship programmes/invest in a community benefit fund.

This reduction in costs is a reflection of the extent to which staff are keen to identify where savings can be made.

*People do realise now that by spinning out it's their money and it is their waste, so if somebody wants to take advantage, then they tend to self-regulate far quicker.*

## Growth

Growth has resulted in a number of outcomes as detailed below.

Growth has resulted in job creation and organisations have found it easier to fill vacancies outside the recruiting frameworks of their parent body and to hire staff who share the organisation's ethos.

*There will still be individuals that want to pass the buck and say, 'I told him to do it', but the main principles of the company are personal responsibility, mutual accountability.*

*We are bringing in new staff, we have again a new principle that we deploy in our recruitment techniques which we would never have been able to do under the local authority and that is we recruit people on the basis of having enthusiasm, imagination and a really good attitude and not necessarily the full set of skills and qualifications we are looking for.*

A number of participants have reported working with volunteers who have subsequently become full time members of staff. Furthermore the proportion of frontline staff, compared to back office, has increased.

*[...] the two members of staff were volunteers and have come through the system and now have jobs with us, so again we don't just talk about investing in people, we do invest in people and bring them through the system where it's appropriate.*

More generally respondents tell us that services have expanded quite dramatically

*We have grown by 850% and now deliver 8 clinical services. Eleven staff to 50 and also 350 referrals a year to 3000.*

*New patients accessing our service each year now number around 1000; we spun out with circa 250.*

Others are simply judged by the levels of service provided against their contract. Some found that their contracts were not sufficiently well specified in order to determine appropriate performance indicators.

*Our first contracts weren't sufficiently well drafted to enable detailed evaluation of impact but we have learnt from that and have written in performance expectations based on quantified outcome indicators to enable us to better measure impact.*

## Operations and Business Plans

*We find that around a fifth of respondents continue to deliver their original contract where this contract has been re-tendered. In itself this doesn't necessarily mean that the rest have failed in their bids. In fact it is more likely to be as a consequence of the contract not being or ever intending to be re-tendered. One respondent informed us that they no longer deal with a single purchaser, instead they now contract directly with 100+ individuals. However, this should be viewed in the context of some 69% still delivering their original contract.*

*Encouragingly however more than half of public service mutuals have reported that they have expanded into new areas and have won other public sector contracts. Furthermore, while the level of dependency on the original contract may still be high it is down compared to when they originally started out.*

*Dealing with the challenges arising has meant that public service mutuals have reacted in a number of ways, including: making greater use of the existing staff resource; recruiting to fill the skills gap; or made use of their membership of networks or purchased services to provide the knowledge/resource required. In some respects this differs little from the issues they faced at the spinning-out stage, ie skills gap and lack of resource. However, post mutualisation, a small number of organisations have informed us that they are working with 'partners' in order to deliver services. Other pressures experienced include: shorter term contracts, the issue being it becomes challenging to deliver longer-term goals; and the extent to which certain sectors are being subject to cuts in funding.*

*It was suggested that government could advocate on behalf of public service mutuals, ie what they are, what they stand for and the value they bring (socially and economically).*

### Current Business

More than two-thirds of respondents have informed us that they are delivering their original contract (69%) and/or have expanded into new areas (63%). Furthermore, slightly more than half have won other public sector contracts (57%) and have expanded their direct trading with individual customers (56%). However, only 22% are continuing to deliver their original contract following re-tender. Two organisations reported that they have acquired other businesses and another has expanded overseas.

These headline results do however need to be seen in context. The two main factors dictating contract renewal are the length of time they have been trading and the original length of the contract, which could be as long as seven years with the opportunity for an extension of up to three years. In other cases the parent body has invoked break clauses meaning that contracts are expiring several years earlier than anticipated or, as stated previously, the contract has not been renewed but the service is still being provided albeit funded by another purse:

*Some of the services we are no longer delivering, but some of them we are delivering although other customers are paying for them, or, they're delivered under other contracts. So, that original contract has ceased.*

Where contracts are being re-tendered the feedback suggests that certain staff capabilities will be required. In particular organisations are seen to lack legal and financial capabilities needed in the bidding process and the assumption is that these will need to be sourced externally. Meanwhile the requirements of the re-tendering process differ from sector to sector. For example:

*I don't know that we're allowed to, I think we have to re-tender, I think that was part of the clause of the original agreement that it had to go open, or to be open market at the end of the first one, I think.*

*In the contract it says that the council can just say come to us and say this is the amount of money we've got to deliver a ... service and we go away and we have ten days to decide whether or not to accept. So it could just be renewed like that or it could go through a procurement process.*

*So where possible, instead of the customer being the commissioner of the county council, our customer will be increasingly the person who receives our services, who holds a personal budget.*

Furthermore, while some have a fixed timeline for re-tendering, others find themselves in a more fluid situation:

*... it has been extended and extended and extended but it is currently out for procurement and we are expecting the ITT any day.*

*... I doubt that very much, I doubt that very much, it's financially challenging ...*

*Our service contract is being extended by six months, now a further three months frustrating.*

While some are faced with a changing landscape, for example:

*... what we tend to find a little bit frustrating with all the commissioning arrangements is- is the sense of, [...] shorter term contracts seems to be the way of things, even if what you're trying to achieve is clearly a long term aim.*

There is also evidence that mutuals are successfully reducing their reliance on their original contract:

*When we left ... that main contract was 96% of our income and it's now 79%.*

## **Expansion of Services**

As reported earlier close to two-thirds of our respondents have expanded their services. Some have expanded quite considerably. Some mutuals found that things changed significantly once they had been trading for more than three years, as the lack of three years of accounts significantly affected their ability to bid for contracts and obtain commercial funding. One organisation informed us that they were able to obtain finance from their bank that enabled them to purchase their headquarters. However, regardless of how long they had been trading, finances remain a constant issue. 80% of respondents stated that finance was either a highly significant or significant factor in enabling them to win contracts or expand services:

*... depending on the nature of what the contracts are and how we want to go for them, there's a chance that we might need to look at some specialist sources of finance to help us through that process in terms of funding the venture.*

*I think it has been the finances, getting to understand the different way the finances work.*

## **Challenges**

Those involved in spinouts often do not immediately have the commercial skills needed to operate competitively. In terms of changes to workforce capabilities since spinout, commercial skills are therefore a key focus for respondents. In the survey the greatest combined highly significant/significant score was 'Workforce commercial capability gaps/need to upskill', with 83% selecting this. Other skills that are also needed include:

- providing new back office functions
- understanding new corporate processes
- the diversification of the business beyond the original contract meaning that new services must be provided
- requirements to bid for new contracts
- the need to seek philanthropic investment.

These skills are gained through formal training and learning on the job for existing staff. In addition, in many cases, this has also involved hiring new staff who already have these capabilities.

*In the back office we had a lot of that very traditional processing. There were a lot of doers and not many people that thought why am I doing it? We've tried to bring some management capability in which has brought some different perspectives about the things we do and how we do them. So in some sense the generic staff at the bottom end hasn't changed because they're still doing very similar things but actually the way they've done or some of the things they're doing have changed markedly because we had to bring in fresh management perspective to help us through that process.*

*Before spinning out, we invested in a company to come in and work with us on improving the commercial skills and knowledge of the service managers who are the senior leadership team now, our management board. We carried on with that and supplemented that as well after we transferred out, because while we were still in the council it was all very theoretical but once we'd transferred out it became real so it formed part of our leadership development programme actually. We've been rolling that down through the management tiers within the business. From our front line workforce, we work very hard to ensure that they understand how we've created our pricing strategies, how our structures work, the decision making processes.*

*When we spun out all of our work was based around schools. Now, most of our schools is in the community or in families, such as troubled families, youth services, so the breadth of our work has changed massively. We've had to move quite a lot to do that, we provide training for all of our senior management team to broaden our scope, and expertise. We've been able to provide that and be able to bring staff with us, so staff have moved across from schools based services into family based services, and vice-versa, because of transferable skills.*

Equally revealing are the challenges involved. Respondents to the online survey considered the following three factors to be highly significant:

- lack of public sector funding/economic climate (37% highly significant)
- relationship with parent organisation or other commissioners (33%)

- capacity to win and deliver new contracts (32%).

The depth interviews show that it is often a case for mutuals of simply coping with existing work and adapting to new challenges as they occur, for example:

*I think the main challenge there is that capacity to keep business as usual, and do all the other stuff that we've needed.*

*So our challenge has been how do we fill and how do we manage this gap, and that's a whole story and we've done that in loads of weird and wonderful ways.*

*... this is the thing, if we want to survive we have got to be fleet of foot, we have got to be innovative and we have got to change ourselves constantly [...] It really has to be something akin to that, that you constantly modify, change and spot opportunities and because you are a mutual and because you have the freedom and flexibilities to make decisions you can just do things much faster than when you were in the local authority and the net result is service users get a better service.*

Other comments referred to developing capabilities to address core business needs as well as the impact of cuts across certain sectors:

*... yeah, it's skint, let's be frank, there really isn't the money and I think that there's efficiency happening all around ...*

*The key challenge facing us is to establish a sufficiently solid financial foundation to allow us to invest in a programme of business development.*

*We haven't got that capability so we're having to work with other partners to be able to bring to market a solution that meets what our client base is looking for to stop them from going to the competition.*

A number of suggestions were made in respect of the support that government or other agencies could provide, whether for the sector or specifically for the organisation. Some respondents requested a more 'level playing field' during the procurement process. Many expressed the view that greater political support and coverage would be useful in order to highlight the differences with the private sector and the added value that public service mutuals can provide.

*I think firstly that there needs to be a bit more of a PR element to it to literally shout about the value of the mutuals, what a mutual is, what they stand for, and the added value that they provided and the efficiencies that they also provide.*

Participants envisaged this type of PR being mainly directed at the parent bodies from which the mutuals had spun out in order to mitigate a general lack of understanding about the features and benefits of mutuals. More specifically there were requests for assistance with legal support and access to financing facilities:

*Support we may need is access to cost efficient finance facilities in the future if we are to continue growth as we have currently managed all our growth from within existing resources by being prudent.*

*Despite some support from Cabinet Office, we needed much more legal help in particular.*

## Support Mechanisms

We asked about what support mechanisms we used and needed to operate, both financial and advisory. Some organisations have used their existing staff for this or have specifically recruited. Others have purchased advice as and when required and others have made use of any networks they belong to, eg Co-operatives UK:

*I think what it comes down to is bringing in external support for areas where we don't necessarily carry that capability because the cost of carrying it is just too great [...] So I think we are working at the moment on the assumption that we'll have to afford those resources ourselves and therefore work to one part of the surpluses that we generate is all ring fenced off to help compete in the future.*

*We've used our strategic finance providers. That's a local chartered accountants. They've helped us develop not just our financial plan, which we started off with but then our prices.*

Our respondents cited a myriad of enabling factors behind their success in winning contracts and expanding services. At the headline level, 94% considered 'new workforce capabilities' either highly significant or significant in this respect. The depth interviews expanded on this, for example:

*I think, [...] my team, we all are willing to learn as we do something.*

*So being brave enough to take the step into the unknown and with the confidence that we will discover how to do it as we do it.*

*The freedom to operate.*

*So, there's a really clear structure about their responsibility for their budget, and their performance.*

## Respondent Advice for Organisations

At the end of the depth interviews, participants were asked to offer advice for organisations considering setting up public service mutuals, some of which is outlined below. This advice reiterates many of the points previously discussed, particularly in regards to overcoming the challenges of the mutualisation process:

- Engage early with the parent body and obtain high-level commitment. This may involve explaining the benefits and potential of spinning out to the parent body.
- Have a clear plan from the outset, else you might be taken off course. This involves investing time in developing a robust, viable business case that demonstrates a sustainable, future-proofed service. This will prevent significant delays or challenges during review.
- Conduct as much background/market research as possible.
- Facilitate efficient communication processes with your employees.
- Be fully committed to the process; staff need to support the decision to mutualise and the overall vision.
- Ensure you have a network of support, with independent financial, taxation and legal advice separate to the parent body.
- Keep reviewing/updating your systems and your project board to ensure they remain fit for purpose.
- Continue to promote your service and your values.
- Establish communication channels with commissioners.
- Be prepared to make difficult decisions.

*We believe it's to do with the culture, and we're really concerned about the emphasis [of] organisation, and we genuinely feel there's something about the culture of social enterprises that makes the difference. There's something about how people want to do [...] more than just do their job now.*

*We tried to do it in like a way that's representative of our culture and our values [...] it's really, really important to us.*



## Respondent Recommendations for Future Support

Con conversationally, participants identified areas where government could provide useful support. In general, the ideas suggested were wide-ranging and comprehensive.

One common theme that emerged was that support would be useful in the area of **marketing and exposure**. Specifically, organisations felt that government should provide continued political support and coverage including promoting the benefits and potential of public service mutuals, the added value they provide and their success stories. This would improve parent body understanding of the public service mutual model and ethos which is perceived to be a limiting factor in their successful spinout and continued existence. In addition, participants would appreciate support with marketing their organisations after spinout as this is a capability which is typically missing in the new organisation. Spreading the message of their new model to all stakeholders is considered to be important for gaining support in the community and for facilitating further development.

Another theme which is implied by the suggestions is the importance of government as a **central information hub and meeting point**. Participants suggested a variety of ways in which government could act to reduce inefficiencies in the mutualisation process caused by a lack of centralised information and assistance. These include:

- providing information relating to the intricacies of being a commercial entity that may not have been experienced by staff in the public sector eg launching websites, public relations and finance. Government action could involve the facilitation of training courses in these areas
- facilitating workshops led by finance staff who have already gone through the mutualisation process in order to explain the financial implications of being a public service mutual compared to a public sector body to new organisations
- providing central legal support in order to reduce inefficient spending by each new organisation on the same advice
- establishing public service mutual networks to share learning, providing administrative support where possible. Also, making public service mutuals aware of which organisations they can turn to for support.

**During the mutualisation process**, government can help by providing more support. In particular, government can:

- clarify the processes involved with mutualisation to parent bodies and support their engagement with services going through the mutualisation process
- provide legal support as it is not always present or suitable in the parent body
- provide consultancy advice for business evaluations and help the public service mutual to enact subsequent recommendations
- provide financial support. This may include grants, recruiting business mentors from industry and helping to bridge the gap to potential industry resources.

This type of support would continue to be useful to public service mutuals after the mutualisation process is complete. Government could then also **provide expertise and support for expanding services**, including advice on diversification, growth and bidding for contracts.

The final suggestions relate to perceived **fairness**. First, some participants were keen that where support is offered by government, it should not be disjointed between different providers. In addition, as new public service mutuals are essentially start-ups, they have

difficulties during the public sector procurement process as they do not have historic accounts. This also affects their ability to access financing. Furthermore, participants felt that the procurement process is based on cost alone and that other benefits that public service mutuals can provide are not taken into account. There was a sense among participants that this is an area where government could intervene in order to support the early development of public sector mutuals although there were no concrete suggestions about how this could be accomplished.

*How do we market the value of what we do? How do we convince society that it's worth having and it would be quite nice if they invested in it? [...] How do we get into [those] networks, how do we make [those] links?*

*The parent board is not going to allow a viable element of their business to go, rogue. So, there is no process to allow for entrepreneurial thinkers, or providers of smaller elements of the whole to go out. That needs to be thought about.*

*A lean social start up model, with business development built-in from the start and some additional capacity and skill to be proactive about seeking opportunity (eg forging relationships with other [...]) and reactive when tenders are released (ie the capacity to draft responses and mobilise if successful) would have been helpful.*

## Appendix One: Previous Research

In May 2016, CIPFA, along with the Employee Ownership Association (EOA), conducted some primary research to highlight the role of employee-owned spinouts in delivering public services. Thirty organisations provided written feedback about the benefits, challenges and employee involvement of spinouts.

### **Involvement of employees**

It was clear from the feedback that employees of spinouts are actively involved in the decision-making processes of their organisations, in myriad ways and at a variety of organisational levels. Many of the responding spinouts had staff representatives on their management boards, and staff were invited to take part in the governance of the organisation including high level decision-making and strategic discussions. In general, the governing bodies are held to account by employees and business plans are developed and agreed in consultation with staff.

### **Benefits**

A key benefit of becoming a public service mutual identified by survey respondents was the ability of the organisation to have a degree of control over its own future. Respondents referred to, for example, the opportunity to set the organisation's own mission, principles and values, and the freedom to innovate without overly bureaucratic or political interference. The new organisations operated as commercial businesses, with an ability to react quickly and make decisions based on fast-changing external environments. Some respondents pointed to greater access to investment via private sector partners, and a number welcomed the separation of the commissioning and providing roles. Some respondents saw their independence as ultimately providing their organisation with the chance to 'grow and invest'.

A number of respondents referred to greater staff involvement, control, influence and engagement, with an added cohesiveness and a willingness to participate in decision-making. There was also greater scope for rewarding staff more effectively for their contributions. While many of the organisations in the survey were relatively new, respondents mentioned early evidence of benefits associated with increased staff engagement including added motivation, greater productivity, and a noted reduction in sickness absence.

Some respondents referred to an ability to retain the core public sector values of being accessible, affordable and community/customer focused, while also valuing the ability to act entrepreneurially. Delivery models were seen as offering opportunities for increased connectivity with and support for the local community, and a more personalised relationship with clients. They also helped to deliver major service transformation and provide value to customers and taxpayers.

A number of respondents identified opportunities for the organisations to diversify their income streams. Examples provided by respondents include:

- expanding geography and deepening the service offer

- consultancy projects
- training delivery
- expansion and acquisition of community services and businesses
- development of commercial activities to generate revenue
- taking on additional hours of support.

## **Barriers and Challenges**

The process of becoming a public service mutual is not without its challenges. Several respondents highlighted the intricacies of setting up mutual organisations and that local authorities were not aware of all the processes involved. This lack of understanding of the mutual model was said to extend to clients, commissioners, insurance companies, and pension schemes, which causes complications when attempting to provide services using a new delivery model. It was also suggested by some respondents that there were some complications with local authorities releasing services, or handing control to the spinouts, including the transfer of employee contracts.

Internally, there were some challenges associated with building a commercial culture with no history of trading. A respondent noted the importance of upskilling management teams who are experienced in the delivery of services but less so in the running of a commercial organisation. Losing the infrastructure of a council means that there is additional responsibility for the new organisation in managing and complying with legislation, regulations, tax matters, annual returns, filing accounts and so on.

A common challenge was related to the legal status of spinouts. VAT, for example, was identified as something that needed careful consideration both at the business case and planning stages and later on when developing services and assessing the costs of delivery. This and other tax and financial management matters provided new financial challenges, particularly to staff who were unfamiliar with the workings of an independent commercial enterprise.

Several organisations had facilitated staff focus groups, forums and planning days to allow employees to inform and influence the business and its activities. Organisations had engaged with their workforce with regards to their vision, values and behaviour. There was also evidence of local stakeholder engagement regarding service priorities to support social impact and improved outcomes for service users. Staff participation and ownership rights varied although many of the organisations offered opportunities for staff to participate as members, and, where the legal structure allows for the issuing of shares, as shareholders.

Additional challenges identified by respondents included:

- the retendering of existing contracts and the need to diversify revenue and income streams
- lack of finance available to local authorities, with a subsequent pressure on delivering contracted public services
- the complexity of the commissioning landscape
- becoming fit for purpose in a commercial environment, including attracting and developing corporate support.

Published by:

**CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY**

77 Mansell Street, London E1 8AN

020 7543 5600 \ [www.cipfa.org](http://www.cipfa.org)

© 2017 CIPFA

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.