

Research into the Public Service Mutuals Sector: Case Studies

CIPFA Research

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Overview

Public Service Mutuals

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, and
 - has staff control embedded within the running of the organisation.¹

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.

About the Research

CIPFA and the Inclusive Economy Unit have been collecting evidence on the benefits, impact and challenges associated with spinning out as a public service mutual. As part of this research case studies have been produced which explore the following:

- key features of the organisation
- the motivations to mutualise
- the mutualisation process and associated challenges
- the impact of mutualisation on the organisation
- future plans and anticipated challenges.

The case studies, listed below, were selected to provide viewpoints from organisations of varying size, service type and location:

- Bristol Community Health
- Chiltern Rangers
- Leading Lives
- Salus Group.

For each of these cases studies, CIPFA held telephone conversations with the managing directors/chief executive officers of the chosen organisations. The participants had previously completed an online survey that contained questions relating to motivations to mutualise, challenges and performance. The case studies below are summaries of the conversations, survey responses and additional information provided.

¹ Mutuals Information Service (www.gov.uk/government/groups/mutuals-information-service).



Key Features

Bristol Community Health provides community healthcare for adults and children predominantly in Bristol and prison populations in five prisons. The service includes community nursing, therapies, urgent care, admission avoidance, rehabilitation, support for people with learning disabilities, musculoskeletal physiotherapy and podiatry. The service is predominantly delivered in people's own homes.



More productive workforce



More responsive services



Better quality services



Better value for money (VfM) services



100% direct employee ownership



More innovative services



Commenced trading October 2011



1,700 staff

Motivations to Mutualise

The main reason for mutualising was the result of an NHS policy decision to divest the service from the primary care trust. Senior staff wanted the service to remain independent and community focused and were captured by the idea of doing things differently in a less bureaucratic environment. Other motivations were:

- to increase staff morale
- to improve service quality and responsiveness
- to improve cost effectiveness
- to improve impact on social outcomes
- to give staff more freedom to innovate in service delivery.

Cultural Change

We believe that there has been a significant 'cultural change' within the organisation, in several areas. Firstly, staff have a greater connection with the organisation and are less isolated within their local teams (there's less of a 'siege mentality'). Secondly, staff are more empowered, with greater budget control and involvement in decision-making. Thirdly, we have a much better 'reporting culture' and this means that while more incidents are reported these are predominantly 'no harm' and we can be assured that anything which might cause or has caused harm is being reported. Fourthly, there has been a noticeable improvement in staff members' commercial acumen and greater awareness of revenue opportunities, appropriate costing of new services and identification of savings and efficiency opportunities; this entails encouraging staff to manage their budgets in different ways and improving management skills.

We've had a massive cultural change from public sector to social enterprise rather than building up from the bottom like a 'start-up' in a very entrepreneurial way. So, I think that's a fundamental difference with many smaller social enterprises.

Performance

As a result of the cultural changes, performance management has improved, along with other areas such as sickness recording. Turnover has increased since inception, from £43m to £74m per annum. Staff survey results have also improved on almost all measures, particularly staff engagement, with employees having greater confidence in senior management. We credit this in part to an 'intensive programme of board visibility' through events and a programme of 'team talkbacks'; we talk to staff about creating the company we want to work for, engaging them as shareholders in ownership, and sharing responsibility.

We've highlighted several benefits, including:

- employees are much happier, growing in confidence and feel they are being listened to
- communication, including staff and patient engagement, has improved
- service quality is better, as is the value for money offered
- services are being developed in a more collaborative way
- there is a greater understanding of the social value, including the importance of holistic, patient-centred care.

Challenges

It's difficult to get a payback on an investment when your demand is rising inexorably, because whatever productivity gain you make immediately gets swallowed up by more patient need. It's really hard.

Initially, the service was only funded for direct staffing costs and outgoings such as rents and IT provision. In response to service changes, we've had to renew infrastructure, including technology and premises, with little financial reserves. Solutions have included winning grants and introducing mobile working to make some productivity gains. We're hopeful that more money will be made available to continue to develop infrastructure

and help with change programmes on an 'as required basis' but what we really need is a realistic and sustainable level of income. Short contract length has also been a problem in terms of investment; while there have been several short extensions, it has been difficult to plan beyond four years. We would also ideally like the customer base to diversify, through ideas such as joint ventures, linking up with GPs and charitable organisations, and developing self-pay offers as well as NHS funded universal services. However, we are still in a challenging, bureaucratic environment which makes further innovation difficult.

It has been challenging to balance NHS efficiency savings whilst opening up the capacity to invest.

Recognition

Our hope is that mutuals will get more recognition for the social value that they create, which isn't the case at the moment partly because of a lack of understanding from commissioners:

We've initiated things like Patient Leadership and Board Diversity programmes and got them funded. We're developing a significant volunteering programme, we bid for some charitable funds to do community navigation. We've got loads of great ideas that don't cost anything or very little, and we give those to the local system. At the moment we get no credit for our commitment to the community we serve.

Chiltern Rangers

John Shaw, Managing Director



Key Features

Previously called the Woodlands Service for Wycombe District Council, Chiltern Rangers CIC works with communities to provide practical habitat management in Buckinghamshire and the wider Chilterns. It manages 13 nature reserves for Wycombe District Council and helps a range of conservation organisations, private landowners and local authority partners with habitat management in their woodlands, chalk grassland, commons, ponds and chalk streams. This is all achieved with the help of volunteers – people of all ages, abilities and backgrounds, plus community organisations, charities, social enterprises, businesses, schools, colleges and other partners all have key roles too.

Chiltern Rangers is operating as a community interest company (CIC). In hindsight, I was pleased to have chosen that route. The CIC model is a fantastic model for us to still be able to access grants, importantly, yet still earn income to make a sustainable business.

A board of directors, consisting of two staff and someone from a third sector organisation, organises and runs the business. The decision was made not to include an employee of the council on the board, to ensure that the business remained an honest, integral business and to work with the council absolutely but independently.



More engaged,
happier workforce



More innovative,
better quality
services



More productive
workforce



10 staff



Commenced trading
September 2014

Motivations to Mutualise

A key factor behind the decision to mutualise was to reduce council costs. Several solutions were discussed, which included outsourcing the existing service to the private sector. Legal advice was provided by the Cabinet Office, and a decision was made to spin out with an initial contract, to be retendered for on the open market in March 2018.

The service decided to take the bull by the horns, spin out, become independent and then have the future in our own hands.

Mutualisation

The process of mutualisation was challenging and protracted for several reasons. Firstly, the transition was delayed due to the 'political storm' surrounding the sale of the Forestry Commission and forested estate. Secondly, I was leading the transition despite having no experience of this level of business and limited practical support. I found myself in a difficult negotiating position with the council. It was extremely difficult for me to have those conversations with heads of service while I was just a team leader, because I didn't have the gravitas that I needed to get things done. While there was support offered by the Cabinet Office in the form of business planning, it was challenging to agree on a structure that met both the interests of the council and the new venture. We got there in the end but additional legal support would have been useful – it's an expensive area though! The big learning curve is that I needed much more support to help fight the fights and it was very, very frustrating, and that made it more protracted. The other challenges all centred around TUPE and pensions; again we were the victims of our small size (two people). Pensions were administered by a different organisation. We were ignored and pushed to the back of the queue – a bigger, more comprehensive spinout support package would have been so beneficial to help unblock these problems more quickly.

Another key challenge was the fact that the mutualisation process took place on top of a full-time job, meaning a build-up of extra working hours. We took on massive risks in terms of workload. Two people full time, with one other person part time and volunteering, essentially from day one were running a business, developing and growing a business and delivering the main contract back to the council – it is quite an ask frankly.

A suggestion is that any support packages for mutualisation should be streamlined and guide potential spinouts through the process from start to finish. As was the case for Chiltern Rangers, while the support providers were really, really good, time was wasted relearning in between packages.

Advice for organisations thinking about setting up a mutual includes:

- ensure early engagement with the parent body, with high level commitment
- create a team to help you with mutualisation
- encourage a longer term view from parent organisations
- get the support in early, especially legal support.

Performance

At the time of interview there were five full-time and five part-time/seasonal workers, after starting from a team of just two. We also collaborate with community organisations, charities and local authorities on various projects. Expanding staff has allowed us to diversify our skills and experience base. Innovation and creative thinking has also improved since spinning out; I think entrepreneurial thinking drives our business. We've got a new member of staff who's developed a new arm of our business called Forest Ranger Schools; now that's brilliant and he's really, really engaged in doing that in an entrepreneurial way.

Two volunteers have become FTEs and one a PTE. We don't just talk about investing in people, we do invest in people and bring them through the system where it's

appropriate, including investing in a range of training. Sometimes we lose volunteers who return to work having gained skills, confidence and experience from their time here – what better indicator of success can we ask for?

The organisation has also diversified its income streams, reducing its dependency on the original Wycombe District Council contract from 100% to around 40%.

Current Challenges

With our original contract up for renewal in March 2018, ultimately we would like support in terms of retendering and then further expansion. My dream really, and my vision, is that we create a social enterprise type hub here in High Wycombe. It would be an environmentally friendly place obviously, built in part from locally sourced timber, with all recycling and renewable energy and energy efficiency etc all built in.

Moreover it would be about training and investing in people starting with the build – we are looking at working with Bucks UTC to use this as a live training project with their students; what better way to help train young people in construction and IT infrastructure than through building this.

Then it's about income diversification, all about making us a sustainable business in the long term. The organisation has invested in refurbishing its leased building, however we would like some additional support in terms of raising finances for a new building. We need a new purpose-built facility to be our permanent base, then we can really drive the business forward. We would be really interested to talk to anyone interested in helping us realise our ambition.

We would also like to expand our board and a package of support to help get to this crucial stage would also be welcome. This will then help ensure our governance is as good as it can be and gives us extra capacity to develop the business further. We are currently in the process of starting to review this; one idea is to create a young-person board member, shared between two young people to ensure they are becoming more representative of their stakeholders. We have been working with a small team from Coca-Cola to see how they can do this and have undertaken some impact measurement work. Any further support for this would be hugely helpful.

Leading Lives Limited

Tony Carr, Managing Director



Key Features

Leading Lives is an award winning social enterprise which provides social care support for people in the home and in the community across Suffolk and neighbouring counties. As a not for profit business we reinvest any surplus back into services for our customers or into the local community through our Community Benefit Fund. We are an employee owned co-operative with over 20 years' experience in providing high quality social care and are now one of the top ten social care co-operatives in the UK.

We are an industrial and provident society for the benefit of employees, a co-op. We are governed by a board that doesn't have to be solely employees, only voting members have to be employees. Our shareholders are employees, so if you are a permanent member of staff when you join you have an option (after a probation period) to become a shareholder and if you decide you want to do that you have to do training.

We like people to understand what it means to be a member and what the ethos of the company is. So if you join you pay £1 and you get a liability of £1 and it buys you one vote. So our board is made up of employees. We have rules rather than a constitution that govern us and our rules allow us to have up to 15 board members. We currently have 12, nine of whom are voted on and the remaining three are ex-officio, that's myself and two others as it stands now, two operations directors. We're on the board through our jobs. So we can co-opt others on to the board, which we do, but they can't vote.



More engaged and happier workforce



More productive workforce



More responsive services



Better quality services



Better value for money (VfM) services



Growth of your local economy



More innovative services



573 staff



Commenced trading July 2012

Motivations to Mutualise

Suffolk County Council needed to address the various pressures it faced, the principal ones being financial, demographic and personalisation. From a financial perspective there were tightening budgets. Demographically, there was demand from an aging population. Personalisation added complication, essentially:

...more people needing support, less money to do so and more complicated systems and approaches and ways of supporting people.

Consequently the council decided that it should be a commissioner and an enabler rather than a provider. The question that arose was, "how do we move these services out of the county council?"

...the motivation was to find an option and that research that we undertook led us to identifying social enterprise as an option. So the motivation for me and a number of colleagues was to try and keep our services that we felt were good largely intact and address the required changes, the reduced savings that were required and move towards personalisation, to do that over a period of time rather than a slash and burn type approach.

Mutualisation

The process to mutualise took somewhere between 12 and 18 months. The process became protracted for a number of reasons, for example there were to be about a dozen divestments and they all needed time with finance, HR and contracts. This was coupled with the necessity to obtain approval through various gateways, consisting of an officer gateway and an elected member gateway, although this did give us the time to do more research and hold further conversations. Our departure from the council was held up for three months (we had originally planned to move out on 1 April 2012), as they hadn't completed their due diligence. Furthermore, given the services we provide, we needed to obtain ten Care Quality Commission (CQC) registrations. And in collaboration with CQC we wanted the county's registrations to lapse and for ours to commence within a minute of each other. It takes a minimum of 90 days to set each registration up and the three month delay meant that we had to terminate the original registrations and start all over again.

The other major challenge was around the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations:

...so that was massive, you've got anxious staff, you've got a trade union that was pretty anti. The union's view unfortunately was we oppose divestment and are simply here to protect our members' terms and conditions. That was it. No discussion about "but hang on, this being an opportunity to potentially save services, jobs and redundancies". It felt like a battle with lines being drawn... The union struggled to understand, and still do, that we were no longer part of the public sector but instead competing for business in the independent sector. They still [see] it as being an arm of the county council which of course we're not.

Performance

Since spinning out Leading Lives' workforce has grown by a third (33%). Alongside this income has increased, based on the original projections and as at 31 March 2016, by some 37%. However, the budget over the last six years for this service has shrunk from originally £13m to £11m and now down to £9m. And, because we are no longer part of the council, there are various costs we have to incur such as rent, VAT (non-recoverable) and corporation tax. Despite this we have managed to make an annual surplus in each of our first four years. This has enabled us to move toward having three to six months' salary in reserves (considered good market practice). And there have been other beneficiaries:

...what that amounts to is we give our shareholder members, depending on performance, an annual bonus in the form of gift vouchers at Christmas. They had £50, £75 or £100 gift vouchers depending on how we've performed each of the last four years, but that's all; the rest of the money (95% of total surplus) goes back to either reserves or into our business development fund.

We also put a proportion into our community benefit fund. So we've funded 33 projects over the last three years and we've given £75k (£15k, £30k and £30k those three years) and we've invited organisations who support the same customer group as us or people in our customer group. So for community projects, we give away grants of between £200 and up to £5,000 and we've just allocated £20k for 2017.

But it's not for profit so a benefit to the county council and to Suffolk is that because we're a co-op and because we're a social enterprise, we support the community, we trade locally.

Alongside this we've expanded our direct training and into new areas of activity, domiciliary care, and called it Independence Plus. It has added close to £1m annually to our income. This has meant that in terms of reliance on our original contract this is down from 96% to 79% of our total income.

Current Challenges

...they won't be offering our main contract out to the market as it stands now. It will be broken up, for example supported living, we have 17 schemes in current main contract which are likely to be offered as individual lots and they'll be made available to whoever is on the framework. Both day services and short break services will in future be accessed directly by customers using their personal budgets who will be advised of the respective providers on a new framework. So the challenge for us is to make sure that we have a suitable, attractive and affordable service offer.

And in order to meet the needs of personalisation our resources need to be adaptable and flexible. Our clients, who haven't had choice previously, can now decide for themselves. So if we're not flexible then they will take their business elsewhere.

So we have a Leading Lives development fund. We plough a proportion each year into us developing our business... we've got "Big Potential Funding"... we're looking at how we can attract social investment to start getting to property purchase... and we're renovating a building to make it into a supported living scheme for people with autism. We're looking at how we do that long term, but we're doing it in a way to match the county council's strategies. We don't want buildings for the sake of buildings.

The council is developing a supported housing framework and we need to achieve framework status, we're already on one. Individuals, the clients, will have options:

So they can say we want to be supported by Mencap or United Response or Leading Lives and the county council will then do that through a spot contract. They'll only do that, they'll only direct them to organisations that will sit on their framework.

Future Challenges

At the point of spinning out we aspired to employ people with disabilities, particularly more people with learning disabilities. We've allocated £20k of our community benefit fund for next year, as well as target employment schemes for people with disabilities. There were aspirations for Leading Lives to have a positive impact on the marketplace. But we didn't do enough collaborative work with the council because they were hit by savings and cuts.

If we could have more of the county council commissioner time, we might have been able to develop more. But that's not a criticism of them, it's just recognition that they were hit hard by austerity.

The personalisation agenda is impacting on our competitors so there's the opportunity to gain some business.

...if you're going to have true personalisation, it's basically you give the recipient, the vulnerable person, their money and they decide how to spend that money. So for us, we've got to make sure we're attractive to those people. This is what I've been telling our staff since we left. We've got to adapt our services. We've got to refine our service offer, refine our prices. So we've got to make the service offer attractive, make the prices affordable. So I think it will shape our service according to how well we're doing at the point some time, probably starting from April next year onwards, our services will expand and contract according to what people choose.

Salus Group

Peter Heckel, Founding Member and Director



Key Features

Salus is a trade name of the Salus Group which comprises Project Salus CIC and Salus Solutions Ltd which are both social enterprises. Project Salus CIC provides emotional health and wellbeing service for children and families, delivered in educational, youth and community settings.

The choice of being a community interest company (CIC) was made for two reasons: access to funding and to demonstrate that profits were not being drawn as dividends:

To be able to access funding we needed to be a social enterprise, so a CIC seemed the obvious way to go for that. So, although we looked at other options it was merely a matter of days before we decided on the CIC option. Within that we are limited by guarantee rather than shares, and we chose that because we wanted to make it absolutely transparent that we were not taking dividends from any profits.

Since spinning out Project Salus has tripled in size from 25 to 75 (FTE). This has resulted in lots of change, perhaps most notably capabilities within the workforce:

When we spun out all of our work was based around schools. Now, most of our schools are in the community or in families, such as Troubled Families or 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.



More engaged and happier workforce



More productive workforce



More responsive services



Better quality services



Better value for money (VfM) services



More innovative services



Ability to use skills to access new areas



85 staff



Commenced trading June 2011

Motivations to Mutualise

There were a lot of motivations, but the catalyst really was survival. The local authority had taken the decision that they weren't going to provide discretionary services. And the business unit... provided solely discretionary services, so it was really either do something or the services would disappear.

Despite working for the authority for a number of years and being perfectly happy doing so, an opportunity existed to do a number of things once the opportunity arose:

They were all about being able to provide better services for the children and families we were working with, 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 local authority.

Mutualisation

The process to mutualise began in August 2010 and by June 2011 we were trading. However, if it hadn't happened within that timescale then there was a real chance it wouldn't have happened at all as the service would simply have ceased to exist. In terms of the decision making process the only research undertaken was that of the two directors, Peter Heckel and Sally Williamson. Other than that no other help, support or guidance was obtained. In terms of the process perhaps the most significant challenge was that:

The local authority had no procedures for doing it. It was no-one's job within the local authority to help us to do it. So, the NHS for instance have some very good systems set up and they know how to turn these things through, but the local authority had nothing.

We also made some mistakes; we set ourselves up for VAT, then spent the next eight months trying to get ourselves deregistered for VAT. So it's advice and guidance that is really needed (more than actual money).

Performance

Alongside a three-fold increase in staffing levels there has been a similar expansion in income with an annual turnover, as at March 2016, of £2.4m. Alongside this growth Project Salus has also managed to sustain services and improve the percentage spent on service users:

When we left 65% of our funding went on frontline services, now 85% does... [consequently] We deliver far more service per pound than we did before.

While some services have disappeared, eg delivering drugs, alcohol and tobacco education in schools, we've used our transferrable skills and moved into family work. We now do a lot of: the troubled family agenda in Kent; youth work including youth clubs and detached youth work; supporting victims of domestic abuse; restorative justice; and resilience. So, it's those areas that have been our growth areas, and training:

We are now recognised nationally as a training provider, particularly in restorative justice. We developed an NVQ assessment centre, and we deliver a range of services to both adults and young people around the children's workforce.

Current Challenges

The principal challenge was the extent to which we could survive post grant, ie after the first three years. While some of the services are no longer being delivered we are now delivering directly to the client or they are being delivered as part of a different contract. Alongside this our systems have had to adjust quite a lot to cope with this. All our back-office functions are outsourced to various specialist companies, consequently changes have gone smoothly. This also has the added benefit that we have been able to switch providers when necessary, although to date only the IT as it wasn't initially working well for us. Alongside this there is also the ongoing issue of cash flow:

Cash flow is the biggest thing, that's the thing which keeps me awake at night is, is there actually the money to pay everyone at the end of each month? And, trying to forecast that going forward...

Another major challenge is competition:

There's huge amounts of competition and the entry costs are low, as are the opportunities to do similar things with similar outcomes. There's huge amount of competition. How we position ourselves in the market is really, really important... [Organisations we compete with include] Everything, from one-man bands, so just someone who is delivering a particular service, other voluntary sector organisations of similar or bigger size and on occasions national, people like Serco...

Future Challenges

Looking forward Project Salus has a number of ambitions, such as expanding into new areas as well as direct trading with individual customers. In both cases this would be within the public and private sectors.

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