PUBLIC SERVICE MUTUALS: THE STATE OF THE SECTOR

Social Enterprise UK, April 2018

A report for:

Department for Digital, Culture, Media & Sport

In partnership with:

Middlesex University London

Transform Research Alliance
A Charitable Incorporated Organisation

CO-OPERATIVES UK

Contents

Foreword

Over 10 years ago, I, along with around 650 NHS nurses and therapists set up what was probably the first spin-out to be established out of the NHS in England. We decided to create a new and innovative employee-owned social enterprise, delivering NHS services but independent from the public sector.

CSH Surrey's co-owners are among the most motivated employees in the health sector, which can only improve the delivery of care. As well as offering opportunities to transform how we delivered NHS services in Surrey, this bold step also paved the way for a wave of subsequent social enterprise spin-outs and the possibility of greater employee ownership in public services.

This model has been picked up by politicians from across the political spectrum. Sometimes, it's the idea of employee ownership which has captured imaginations. Others are attracted to the social purpose and limits on profit distribution embodied by social enterprise. The benefits of democratic governance have long been championed in the co-operative movement. Sometimes, the best organisations exhibit all the above characteristics.

The evidence suggests that spin-outs, in the NHS in particular, are thriving despite extremely challenging conditions. They are breaking even and reinvesting profits in communities, unlike their public and private sector counterparts respectively. They are outperforming others when it comes to patient feedback, friends and family tests, staff satisfaction and engagement. They are growing, picking up new work, innovating and developing new ways to deliver services to those in need.

I hope this research helps spread the word about the benefits of public service mutuals and the benefits of social enterprise in challenging times. There is an inspiring story here and one which can make a difference up and down the country.

Professor Jo Pritchard

Director of Health and Care, Social Enterprise UK

Executive Summary

This report reflects the findings of the most detailed study into public service mutuals to date, with detailed telephone questionnaires completed by 70% of the market. These findings build on a range of other previous studies to provide a comprehensive picture of the current state of the market, and demonstrate that public service mutuals are:

1. **At scale** – representing a combined turnover of £1.6 billion

2. **Diverse** - operating across the health sector, education, employment and skills and youth services

3. **Profitable** – 92% made a profit in the most recent financial year

4. **Growing** – by on average 50% since launch, and 7% in the most recent financial year

5. **Flexible -** 90% reported faster or easier decision making than when part of the public sector

6. **Engaging their workforce** – 85% thought the primary benefit of becoming a public service mutual was having a happier and more engaged workforce

7. **Innovative** – 66% have developed new products or services in the past year

8. **Representative -** 56% of public service mutuals are led by women, and 7% by ethnic minorities

Alongside these impressive achievements, there remain key challenges, namely:

- **Commissioning and procurement** – still remains the greatest challenge for 40% of respondents. 34% also cited lack of capacity to win new contracts as a major issue.

- **Access to finance** – just 25% had reached their target investment figure in the past 12 months, with a disproportionate reliance on credit cards and grant funding

- **Workforce** – access to talent, an overall reduction in workforce and increased prevalence of zero hour contracts were all cited as challenges

Social Enterprise UK

Introduction

Public sector spin-outs go back decades. They have been championed across political party lines, over various waves of spin-outs. Between 1988 and 2008, for instance, there were over 150 housing associations stock transfers, emerging from local authorities.[1] After Greenwich Leisure Limited's creation in 1993, leisure trust spin-outs grew from 40 in 1997 to over 90 in 2006[2]. Then in 2008, under a Labour administration, the Department for Health created the 'Right to Request' for community health services to spin-out as independent social enterprises, with significant funding and support.

The first wave launched in 2009 and included 14 enterprises[3]. The 'Right to Request' second and third waves were then supported by the new Coalition government in 2010, followed by Francis Maude's package of support for emerging mutuals later that year. [4] Together, there are probably more than 400 spin-outs across the country, including housing associations, leisure trusts and others. They exhibit a mix of social, employee-owned, not-for-profit or mutual characteristics.

Today, the Department for Digital, Culture, Media and Sport (DCMS) is responsible for taking forward the Conservative government's commitment to supporting the development, growth and sustainability of public service mutuals throughout England. The Mutuals Team is in the Government Inclusive Economy Unit, part of the Office for Civil Society (OCS). It works across government to support existing public service mutuals to thrive, and new ones to emerge. DCMS defines these public service mutuals as organisations which "have left the formal public sector, continue to deliver public services and aim to have a positive social impact, and have a significant degree of employee ownership, influence or control in the way the organisation is run."[5]

DCMS describes how these mutuals are changing the way public services are delivered: "As independent organisations, they're able to benefit from less bureaucracy, make faster decisions and respond more quickly to the needs of their customers."[6] Since 2010, government support for these organisations has been predominantly focused on creating new public service mutuals and their move out of the public sector. Over the next two years, DCMS will continue to support the spin out of new public service mutuals but will also focus support on the sustainability and growth of existing public service mutuals, including building the evidence base.

Research to date paints an overall positive picture for public service mutuals. However, the evidence base is still limited and the sector relatively small. Many public sector organisations remain reluctant to seriously consider the model as an alternative way of delivering services. One of the ways in which we will encourage the spin out, growth and commissioning of more public service mutuals is to build the evidence base for them.

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[1] http://www.jrf.org.uk/sites/files/jrf/britain-housing-urbanFULL.pdf

[2] http://archive.audit-commission.gov.uk/auditcommission/sitecollectiondocuments/AuditCommissionReports/NationalStudies/leisure_finalproof.pdf

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/216732/First-Wave-Right-to-Request-projects-5-March-2012.pdf

[4] https://www.gov.uk/government/news/francis-maude-launches-pathfinder-mutuals and https://www.gov.uk/government/speeches/francis-maude-speech-unveiling-new-support-for-mutuals

[5] https://www.gov.uk/government/collections/public-service-mutuals

[6] https://www.gov.uk/government/collections/public-service-mutuals

There has been some significant research into the experience and successes of the most recent waves of spin-outs, many of which have a significant enough degree of employee ownership, influence or control to fall under DCMS's brief:

- In June 2013, Social Enterprise UK (SEUK) published *Spin Out, Step Up*[7], which reported on a group of health and care spin-outs, some of whom identified as mutuals, some as employee-owned businesses, and some who had developed models of service user or community ownership. This research reported how these social enterprises had grown, were winning contracts and set out to explore their finance needs.
- In 2014, Middlesex University published research[8] which concluded that innovation has been shown to be faster and easier in spin-out social enterprises compared to experiences in the public sector; that these social enterprises had developed cultures for encouraging innovation and spaces for experimentation; and that the culture of the organisation was more significant to innovatory practice than legal structure; among other findings.
- In February 2017, the Chartered Institute of Public Finance & Accountancy (CIPFA) published research into the public service mutuals sector.[9] The research concluded that public service mutuals were diverse in terms of size, income, function and legal form, had a strong culture of employee engagement among the participants, and 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 reported expansion into new areas, awards of new public sector contracts and reduced dependency on their original contract.

Now, SEUK and our colleagues at Middlesex University are pleased to have been commissioned by DCMS to explore the progress of a group of organisations that have spun out in recent years and which all share some commitment to employee ownership or participation. We are undertaking research to monitor the health of the mutuals sector and establish whether the government's interventions are having a positive impact. This will include the growth in number, size and turnover of public service mutuals. We are also aiming to gain in-depth qualitative insight, over an extended period of time, of the real challenges and opportunities faced when running a public service mutual.

DCMS hopes that this combination of quantitative and qualitative insight will help build the case for the mutual model as a viable way of delivering public services and help the government make informed policy decisions. At SEUK, we support these ambitions and hope that this research adds to the evidence of the merits of, and challenges facing, this emerging movement.

7 https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=10531cc1-87fd-411d-8f93-66170c312330

8 https://www.mdx.ac.uk/__data/assets/pdf_file/0018/21816/Innovation-beyond-the-spin-Policy-Briefing-final-24-3.pdf

9 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf

Methodology

In December 2017, Social Enterprise UK with support from DCMS, the Transform Research Alliance[10] (subsequently TRA) and Middlesex University, developed a survey question set to use as a basis for interviews with leaders of public service mutuals. In order to ensure maximum potential for benchmarking and cross references, this survey set was triangulated with the following research, among other sources:

- SEUK's own State of Social Enterprise survey[11]
- CIPFA's 2017 report into public service mutuals[12]
- Department for Business, Energy and Industrial Strategy's Small Business Survey[13]

This draft question set was then tested with a few mutuals by our partners at Viewpoint Research. A number of questions were added in order to support a separate research project commissioned by DCMS and to be delivered by Baxendale.

DCMS already held a list of organisations which they believed met their definition of public service mutuals. This list was adjusted and added to by SEUK and was used as a basis for the sample. This list included a total of around 115 potential public service mutuals. In January 2018, Viewpoint initiated the fieldwork, conducting interviews with public service mutual leaders and representatives. In total, 75 respondents completed the survey, or a response rate of over 70 per cent. This is the highest response rate of any survey to date. Results were then collected cleaned and analysed and are presented here below.

We believe those who responded to the survey reflect the wider movement. The sample includes most but not all of the large public service mutuals. It includes public service mutuals from across England. While it cannot be perfectly representative, it paints a broadly accurate picture of the wider sector. 90 per cent of the interviews were with CEOs and a handful of others with other senior staff including Deputy CEOs, Heads of HR, Heads of Finance and so on.

This report has been peer reviewed by mutual leaders (via TRA), Simon Parker at London Borough of Redbridge, Fergus Lyon and Ian Vickers at CEEDR, and James Wright at Co-operatives UK. It also takes into account feedback from the DCMS Mutuals Team.

[10] Transform Research Alliance (TRA) is a Charitable Incorporated Organisation. It is an alliance of health and social care providers, who are all social enterprises. Further information can be found here: http://www.transformresearchalliancecio.org.uk/pages/about-us

[11] https://www.socialenterprise.org.uk/Pages/Category/state-of-social-enterprise-reports

[12] https://www.gov.uk/government/publications/research-into-the-public-service-mutual-sector-february-2017

[13] https://www.gov.uk/government/publications/small-business-survey-2016-businesses-with-employees

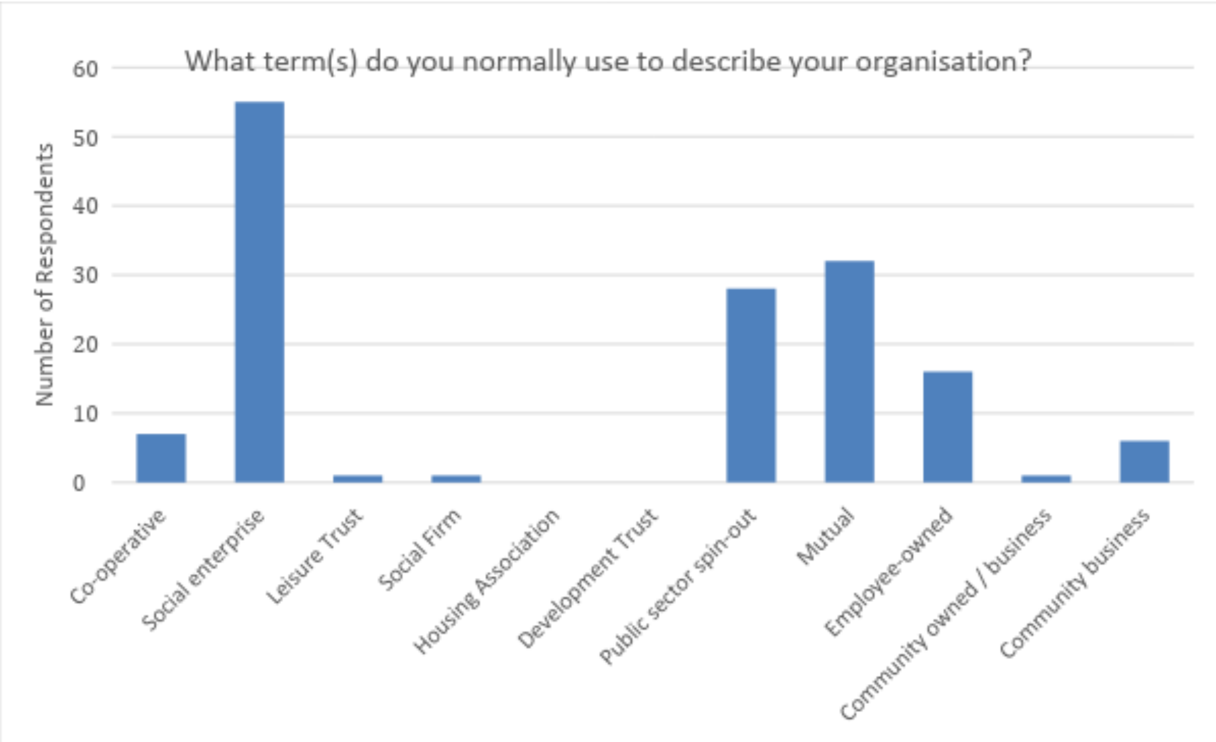
Findings

Our findings are presented under a number of headings, clustered below.

Legal forms, ownership and identity

The 75 public service mutuals we interviewed had adopted a range of legal forms, ownership models and identified themselves in a range of ways. Over half – 45 – had incorporated as a form of Community Interest Company (CIC), while six were Companies Limited by Share, five were Community Benefit Societies and another five took the form of Bonafide Co-operative Societies. 11 were registered as charities. This is consistent with previous research which found 51 per cent of public service mutuals to be Community Interest Companies.[14]

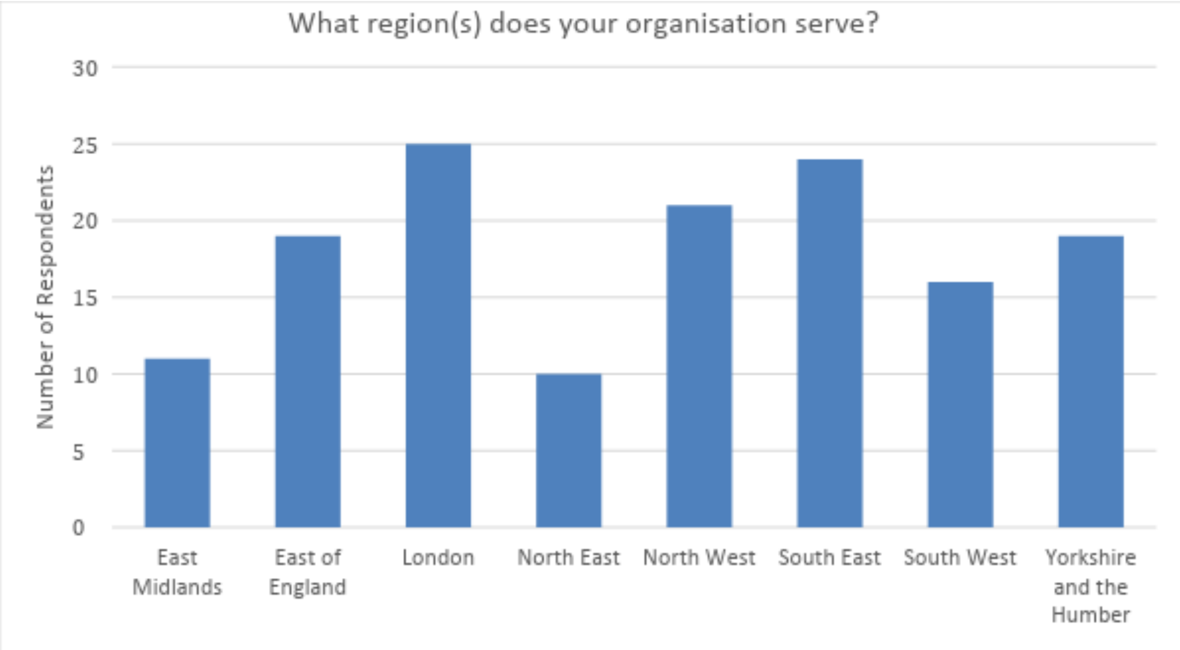
In terms of how they identified themselves, by far the most popular responses among interview respondents was as a *social enterprise* – 55 of the 75 respondents identified this way. This reflects how a significant proportion of these spin-outs emerged from NHS structures under the Department of Health's *Right to Request* programme, launched under the banner of social enterprise, but also a wider attachment to the term as not all these organisations pursue the Right to Request or work in healthcare. No other term was adopted by more than half of respondents. Thirty-two identified as *mutuals*, reflecting the political energy behind this term under Francis Maude's leadership and 28 identified as *public sector spin-outs* which is perhaps surprisingly low given they all arguably meet that description. Sixteen describe themselves *as employee owned* which was also surprisingly low given that 31 organisations actually reported having employee shareholders. Seven identified as *co-operatives*.



14 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf

Regions and sectors

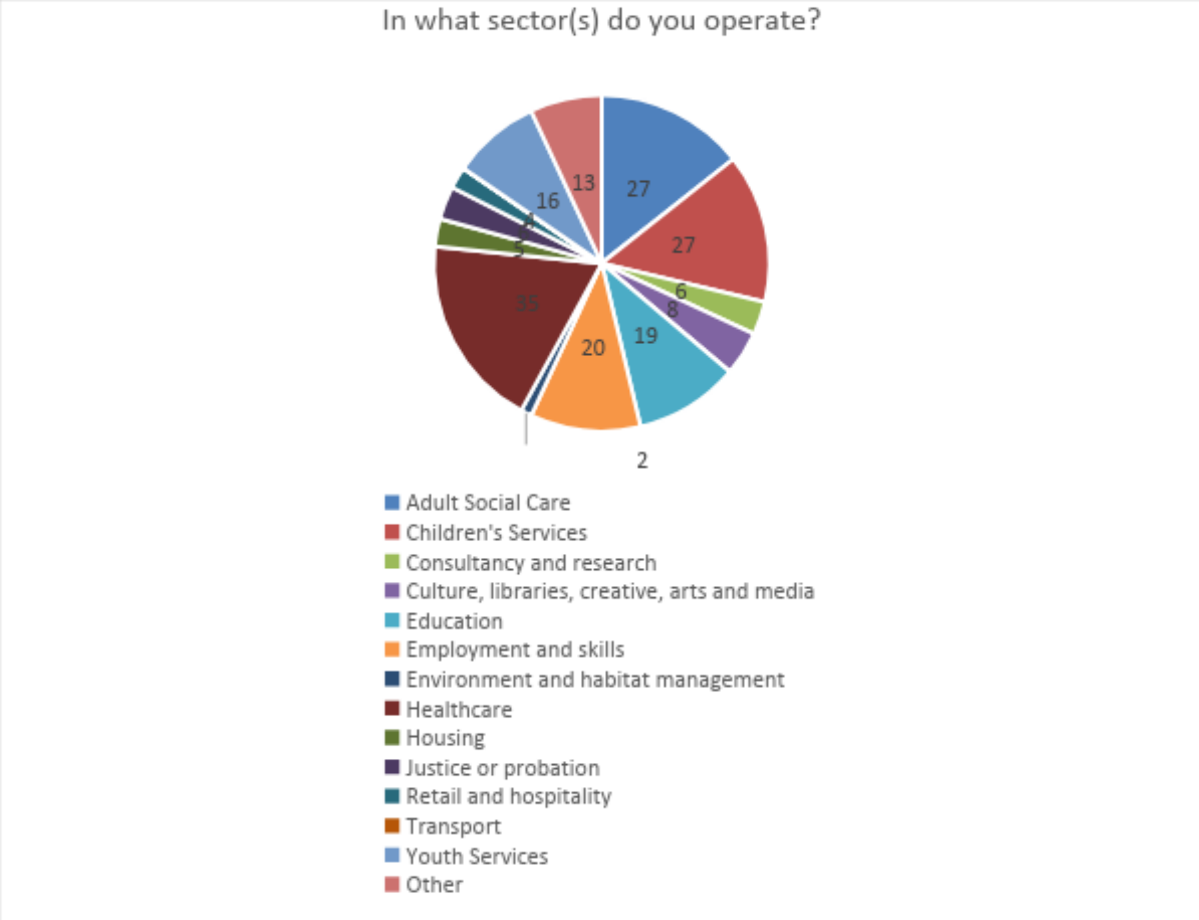
The public service mutuals surveyed are active in all of the English regions[15]. A higher proportion were in London and the South East than other areas, with the North East having the lowest representation.



The public service mutuals work in a diverse range of sectors, including care, the creative industries, consultancy, transport and many more. Nearly half the respondents - 35 - work in healthcare, again reflecting the legacy of the Right to Request programme while 27 work in adult social care and 27 again in children's services. This is consistent with previous research that reported almost half in the health sector.[16] Education, employment and skills and youth services are also significant sectors in which the public service mutuals operate.

[15] DCMS responsibility is England only

[16] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf



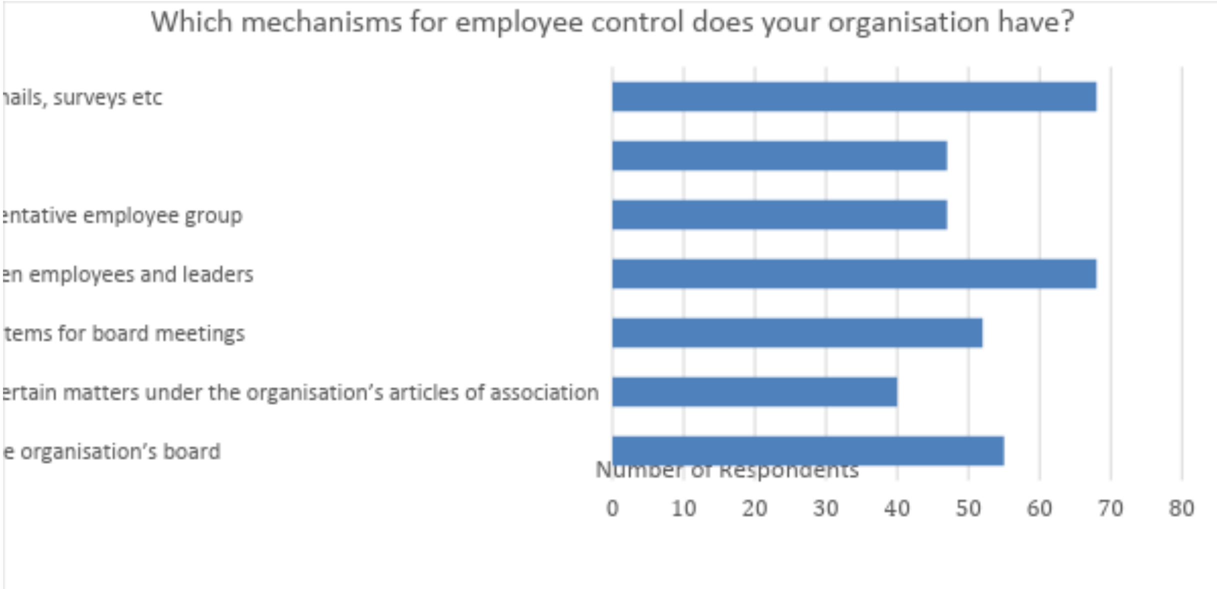
Note: respondents could select and therefore appear in more than one segment. Figures show number of respondents.

Staff terms and conditions, control and involvement

The majority of the public service mutuals reported a significant degree of employee engagement or participation. At least half of the respondents reported staff representative(s) on the organisation's board, voting rights, "Open door" policies, staff engagement forums and so on, consistent with previous research[17]. No organisation in our sample reported that it didn't have any meaningful mechanism for staff engagement. "Open door" policies and staff feedback were most common and whilst staff voting rights was the least common, it was still a feature in 54 per cent of public service mutuals surveyed. Every survey respondent reported that their staff were actively involved in decision-making to a large or some extent. A slightly lower proportion reported that their beneficiaries or service users were actively involved in decision making but still more than three quarters were involved to a large or some extent. More than half also reported that their community were actively involved to a large or some extent.

The organisations less likely to have staff representative(s) on the organisation's board or staff with voting rights on certain matters under the organisation's articles of association tended to be smaller organisations working in health and care.

17 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf



Across the board it is clear that these organisations have introduced new and more flexible working arrangements for staff since spinning out of the public sector. Nearly 90 per cent offered flexitime but less than half reported that they had done so before spinning out. Around two thirds offered term time working or job sharing whereas around only a third had done so before leaving the public sector. Over 40 per cent offered 9 day fortnights or four and a half day weeks compare to around 20 per cent before they span out. However, a similar pattern was found in terms of the adoption of zero hours contracts - rising from under 20 per cent pre spinout to over 40 per cent, revealing what for some, may be seen as a negative side to flexibility. A similar change had occurred in terms of on-call working. This is certainly an area we will look to explore in more depth as part of the ongoing qualitative research, to understand the extent to which this is meeting staff need.

Benefits

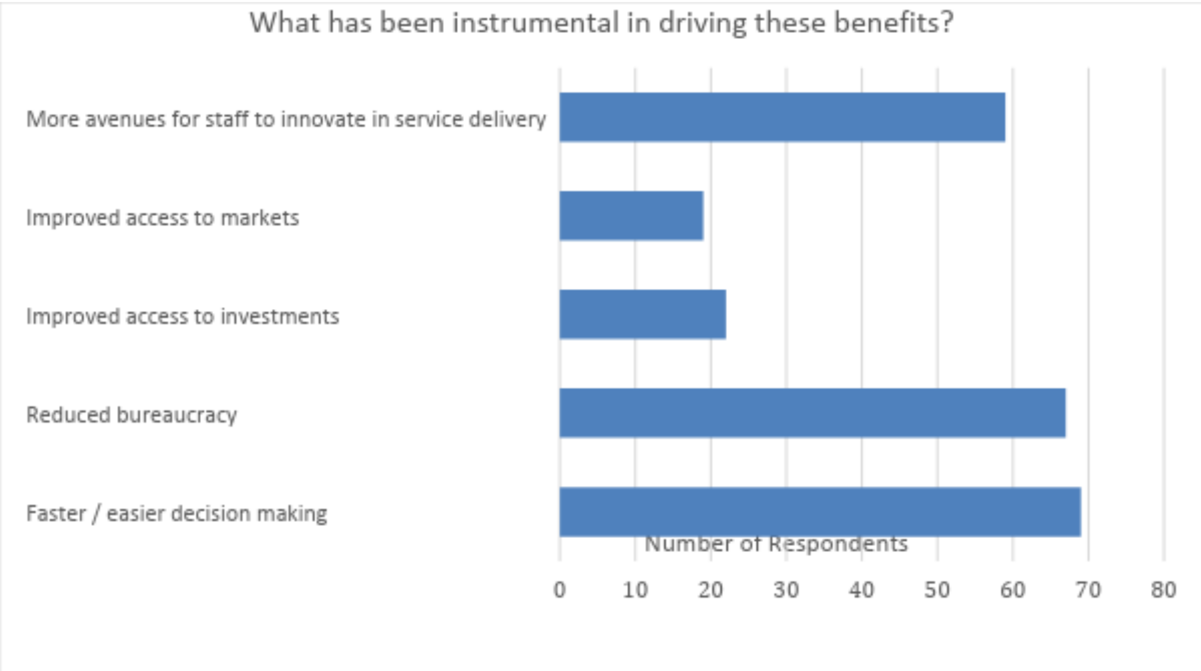
We asked the public service mutuals what benefits they had seen as a result of becoming a mutual. The most popular response was a more engaged and happier workforce, answered by over 85 per cent of respondents. This is an increase on previous research conducted amongst public service mutuals which reported a figure of 78 per cent.[18] A similar number reported more responsive services, while better quality and better value for money services were also reported as significant benefits by two thirds to three quarters of respondents.

We then asked the public service mutuals what had been instrumental in driving these reported benefits. Around 90 per cent reported that faster or easier decision making, and reduced bureaucracy were key driving factors. Improved access to investment and to markets were only

18 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf

reported as significant by around a quarter of respondents. Again, this was consistent with previous research.[19]

Those who did report that improved access to investment had been instrumental included a mix of health and care and other public service mutuals, and organisations which span out from 2011 to 2017. They also included CICs and societies so there does not appear to be any clear common defining characteristic amongst those who felt access to finance had been of particular benefit to them. Those reporting improved access to markets as being of particular benefit were slightly less likely to work in healthcare provision.



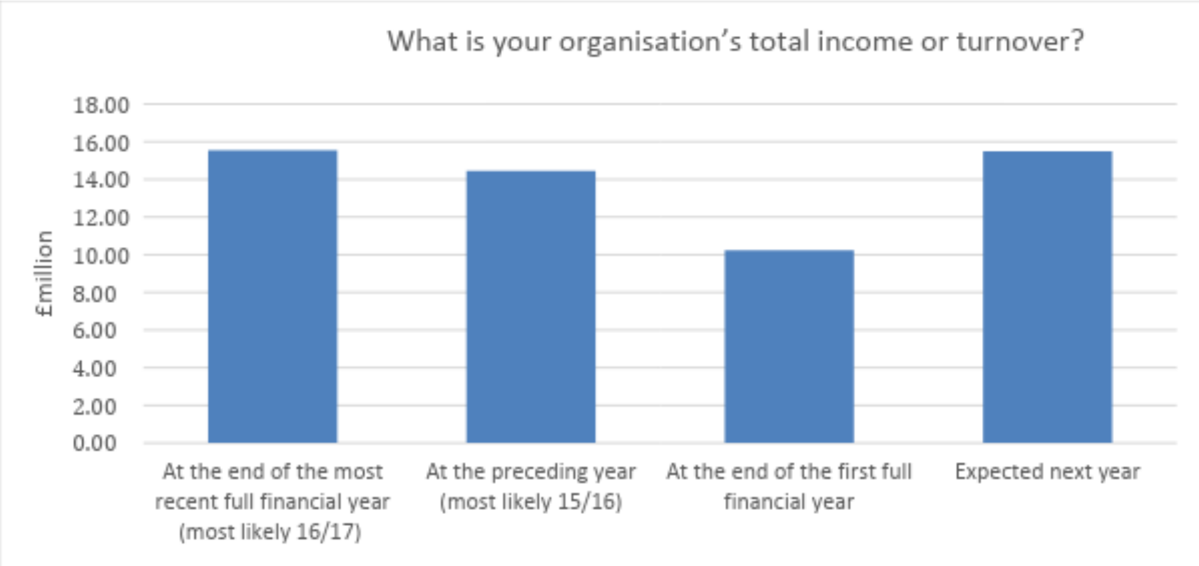
Reductions in staff absence has sometimes been reported as a benefit of mutualisation. Our survey respondents reported that, on average, staff absences have fallen by a third since leaving the public sector. One large organisation reported savings of over 2000 days absence while another reported that absences had risen by a similar amount. There do not appear to be any clear links between rises and falls in absence and sector or age of organisation.

Workforce, leadership and diversity

Public service mutual workforces range from 1 staff member to as many as 1500. On average, public service mutuals had grown their workforce since creation but had also seen a decrease in staff numbers over the last two years. They also expected to see small decreases in staff in the next 12 months. This is consistent with the wider social enterprise sector, where only 12 per cent increased

19 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf

their workforce over the last recorded year and almost a third (30 per cent) have had to reduce their number of employees over the same period.[20]



In terms of the make-up of the workforce itself, an average of 74 per cent of the staff of public service mutuals are women, while 17 per cent are of BAME background, significantly higher than the BAME proportion of the UK more widely.

When it comes to leadership, respondents reported that over half of the Directors or people on their leadership teams were women and over 8 per cent were from ethnic minorities[21]. On average, 6 per cent of staff at each public service mutual have a "longstanding illness, disability or infirmity". Fifty-six per cent of the leaders of the public service mutuals are women, compared to 41 per cent of the wider social enterprise movement. However, organisations with male leadership – under half of our sample - tended to be larger, cumulatively responsible for around two thirds of the total turnover. Almost 7 per cent of leaders are from an ethnic minority, which is lower than social enterprise more broadly, at 12 per cent[22].

Turnover, trading, profit and plans

The total reported turnover of the 75 public service mutuals at the end of the most recent full financial was nearly £1 billion[23]. This represents an average turnover of around £14.64 per organisation – these are frequently significantly sized businesses. Assuming there are around 115 of these organisations, then their total combined turnover may be over £1.6 billion. This is similar to,

[20] https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441

[21] One outlier removed

[22] https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441

[23] £978 million

and may even be higher than previous estimates, which suggested "nearly £1.5 billion"[24]. We are confident that our sample is broadly representative of the sector more widely.

Turnover for these businesses has increased on both the preceding year - averaging under £15.5 million per public service mutual - and also on the first year of trading, which was just £10.2 million on average. So public service mutuals have grown by over 7 per cent in the last year and by over 50 per cent since launch. Forty-eight per cent of public service mutuals reported an increase in turnover and only 20 per cent reported a decrease. This is consistent with the wider social enterprises sector, of which 47 per cent grew their turnover in the last reporting period - and just 34 per cent of SMEs[25]. It is also consistent with previous research, which suggested that most are reporting expanding their turnover[26]. Yet they remain cautious about future growth prospects and on average, predict turnover down by a tiny amount next year.

In terms of profit, those who responded reported total net profits of over £35 million in the most recent financial year, with only 6 organisations reporting a loss. This means 92 per cent of public service mutuals are profitable, which compares favourably to social enterprise more widely where 70 per cent made a profit or broke even in the most recently reported year[27]. The average profit margin was around 4 per cent turnover or around £0.5 million per public service mutual.

The public service mutuals reported that, on average, 87 per cent of this is being reinvested in the organisations, their mission or development. A further 6 per cent is going to charity or the community and – through 5 organisations - just 4 per cent of profit is directed to shareholders, who are largely staff. Profits are being directed towards external shareholders in only three instances, one of which the public sector is the principal shareholder.

Unsurprisingly, the largest proportion of the public service mutuals' income comes from trading with the public sector. Yet, perhaps surprisingly, this only makes up around three quarters of the public service mutuals' income, on average. Seven per cent comes from grants while 6 per cent is earned through trading with the general public. Other sources of income include trading with the private sector and with other third sector organisations.

24 https://www.gov.uk/government/news/cabinet-office-mutuals-reach-century-success

25 https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441

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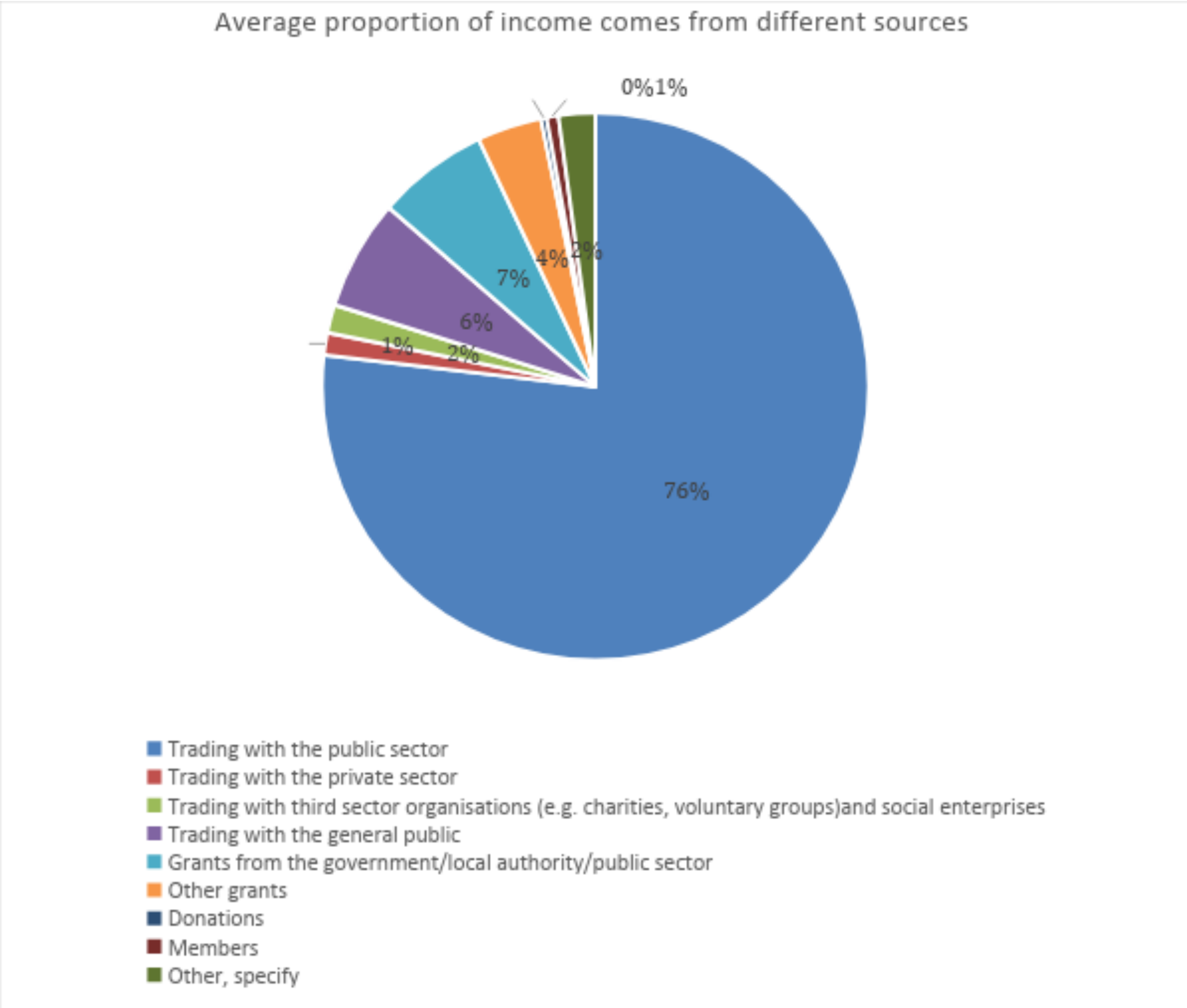

The majority of public service mutuals hold under 10 contracts or financial relationships with different parts of the public sector. However, three organisations hold over 100 contracts. The median figure is 4.5.

Two third of public service mutuals report expanding their services into new areas while over half have won other public sector contracts in their original service area. Most report increasing sales with existing customers, diversifying into new markets, expanding into new geographical areas, and attracting new customers or clients, all within the last 12 months. Two thirds reported developing new products and services over the past 12 months, higher than the proportion of social enterprises doing so more widely at 50 per cent, which in turn is higher than SMEs more broadly, at just 33 per cent[28]. This is consistent with previous research that suggested 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.[29]

[28] https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441

[29] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf

When it comes to future plans, public service mutuals are planning to grow in a number of ways, with around half reporting that they aim to increase sales with existing customers, diversify into new markets, expanding into new geographic areas, develop new products and services or attract new customers or clients. Replicating or franchising, merging with another organisation and acquiring another organisation were relatively uncommon plans, however.

Barriers

Public service mutuals reported a wide range of barriers to growth. It is clear, however, that capacity to win and deliver new contracts, competition in the market and poor commissioning and procurement practice are the most significant challenges, consistent with previous research[30]. Finance was relatively low on the list of priorities for public service mutuals compared to social enterprise more widely; less significant than obtaining grant funding, staff recruitment and workforce capability and time pressures, for instance. Availability and cost of premises was quite a significant concern, however. Those few who did cite access to finance as an issue were more likely to work in leisure, with young people or in social care and not in health.

Notably, issues concerning the relationship with parent organisation were much less significant than reported in previous research[31], suggesting a change in the nature and/or significance of that relationship over time, and with greater organisational maturity a better ability to cope and manage the issues.

30 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605951/Research_into_the_Public_Service_Mutuals.pdf

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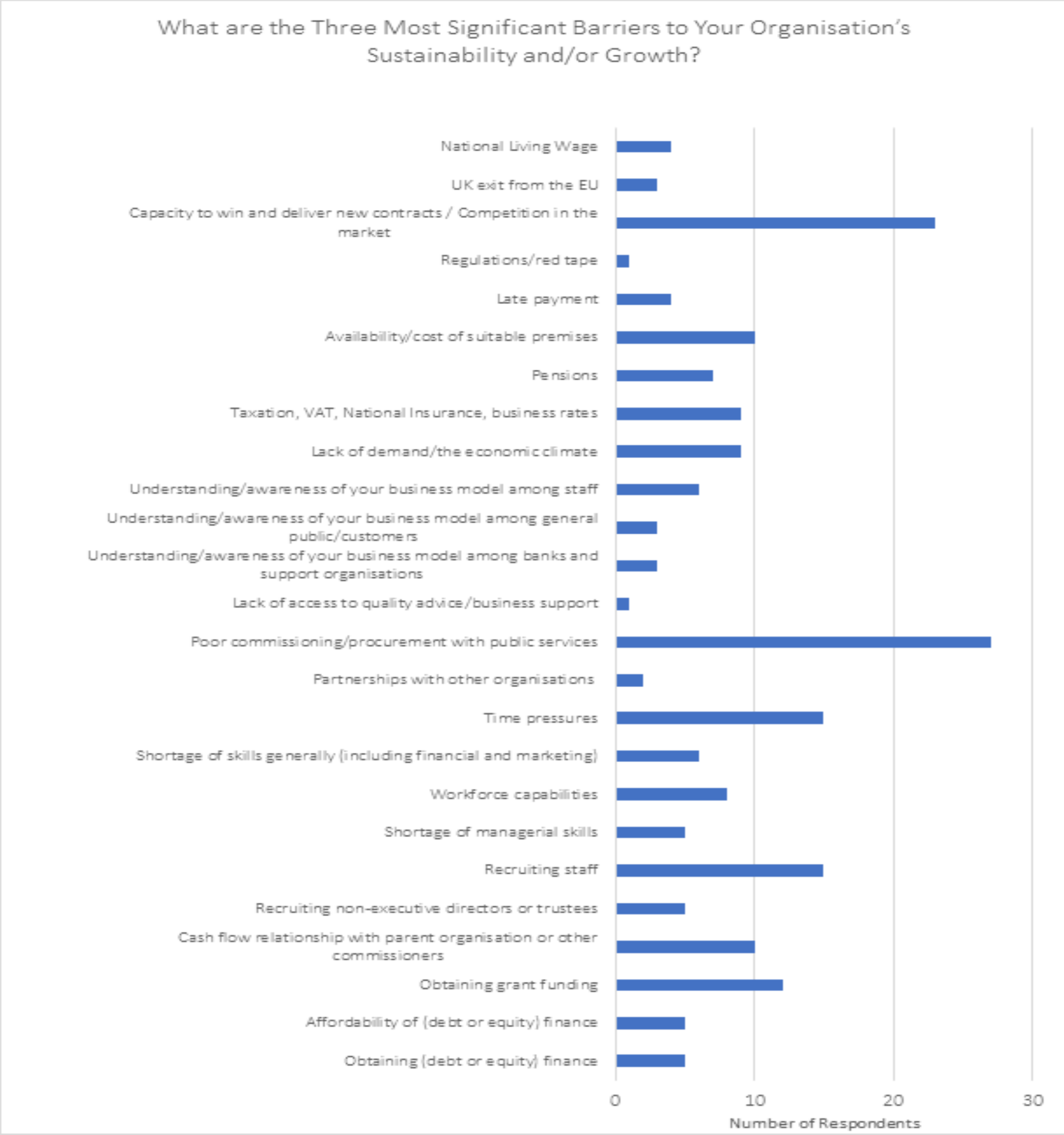


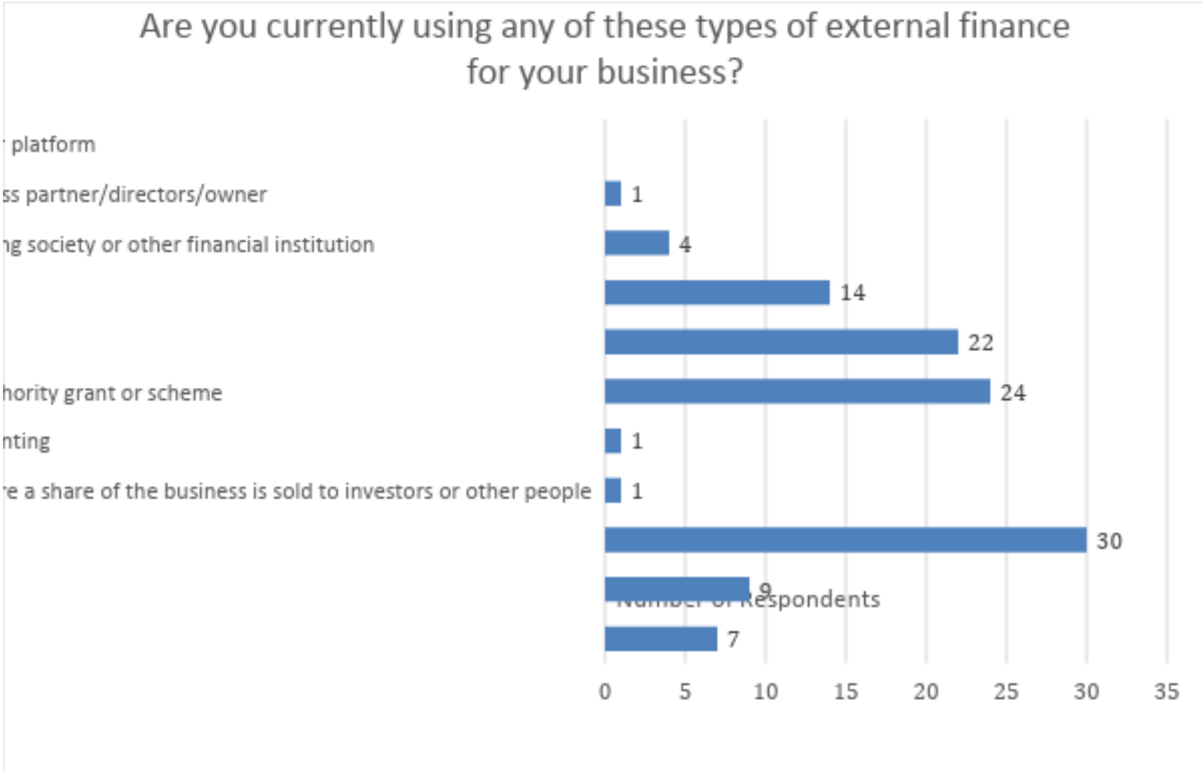
It is worth noting that the response "Poor commissioning/procurement" covered a lot of different things mentioned in interviews, which included opportunities available, contracts being too large, dependency on one or two large contracts, commissioners not understanding a public service mutual's model and a number of other, more specific issues. This is an area perhaps worth further research.

Those organisations which reported challenges in recruiting staff were largely operating in the healthcare sector. This is consistent with the well-publicised workforce challenges facing the NHS and healthcare sector more broadly.[32]

[32] https://www.nuffieldtrust.org.uk/resource/the-nhs-workforce-in-numbers

Finance

In terms of access to finance, nearly half the public service mutuals use credit cards, while around a third access government or local authority grants or similar schemes, and a similar number again access other grants. The grant figure is significantly lower than the social enterprise sector as a whole where 82 per cent have applied for grant funding (although it is important to note that this figure is skewed by the number of very small/startup organisations in this data). Nearly 20 per cent of public service mutuals are lease finance customers, versus just 4 per cent of mainstream social enterprises. Just over 10 per cent have secured commercial mortgages (3 per cent social enterprises) and a slightly lower proportion access bank overdraft facilities. The higher proportion of lease and mortgage use is likely to be a reflection of the greater proportion of public service mutuals with an asset base compared to social enterprises more widely.



Most organisations were successful in accessing all or some of the finance they were seeking. The most common reason for seeking finance was for investment in new or significantly improved processes, plans, goods or services. On average[33], those seeking finance had sought to raise nearly £900k in the last 12 months and had raised a figure within 25 per cent of this target. These are much larger figures than for the social enterprise movement more broadly, in which two-thirds (68 per cent) are looking for finance below £250,000.[34]

[33] One outlier removed - one public service mutual housing association reported seeking to raise £80m.

[34] https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441

Conclusions and Recommendations

Our findings suggest a number of lessons and recommendations for government and others.

1. **Public Service Mutuals are diverse** in size, scope and services, from just a few staff to thousands and from almost nothing to around £100 million turnover. They work across England, across public services and across the economy and society.

   Recommendation: if government is seeking to encourage more public service mutuals to spin-out in future, it may want to focus on two or three specific areas which are already showing the greatest strength and potential, such as social care, children's services or leisure and heritage asset management.

2. **Public Service Mutuals are growing** in a tough environment. They are profitable and developing diverse income streams. Yet they appear to be thriving despite, not because, of commissioning practice, which represents their greatest barrier. Public Service Mutuals are struggling more with commissioning practice than access to finance.

   Recommendation: public service mutuals should not be complacent but could be more confident and seek out greater opportunities to demonstrate their success. For instance, not only in entering social enterprise or employee ownership awards but in health and social care more widely, business awards and across the diverse sectors in which they operate. Government should put greater focus on practical steps to overcome commissioning challenges, especially in healthcare, such as considering the impact of STPs in the NHS on public service mutuals and promoting much greater use of the new procurement *Mutuals Reservation.*

3. **Public Service Mutuals are demonstrating benefits** in terms of a happier and more engaged workforce, more responsive services, better value for money, reduction in staff absence and beyond. These benefits appear to be closely linked to their mutual models and faster or easier decision making and reduced bureaucracy outside of the public sector.

   Recommendation: Government departments with responsibilities for areas in which public service mutuals are active such as the Department for Health and Social Care need to pay greater attention to this success, and the potential of public service mutuals to help them meet the challenges they face. In particular, they need to understand how they can support them not only to be created but also perpetuated and grown – there is an unfortunate tendency for public service mutuals to be interesting ideas when created but for that interest to wane over time.

4. **Public Service Mutuals are harnessing flexibilities from spinning out**. They more often describe the drivers of the benefits they have been able to realise in terms of *freedom from* some of the challenges of the public sector rather than in terms of *freedom to* access the perceived opportunities of the private sector. For public service mutuals, it is more often about flexibility and agility, not access to capital or markets.

Recommendation: Government should consider how some of the benefits of becoming a mutual may be realised by organisations *within* the public sector, redoubling efforts to overcome engrained and unnecessary bureaucracy, giving staff greater freedoms and flexibilities and empowering employees by giving them more significant roles in the governance and management of the organisations within which they work.

5. **Public Service Mutuals are proud social enterprises, reinvesting profits**. Public service mutuals don't always identify as mutuals and, in fact, most commonly identify as social enterprises. This is partly because they almost all reinvest profits rather than distribute them to shareholders, a contentious issue in public services and the NHS in particular.

   Recommendation: For government to encourage public service mutuals to use the language that will allow them most chance of success in the markets they operate in. Whilst the term public service mutual is helpful in a government context to group the organisations that are being created, it is important to note this is not always a useful term for these organisations to use in the markets they are operating where being a social enterprise, employee owned business or cooperative carries more weight. These terms also link them into other networks and opportunities with successful organisations beyond their immediate public service mutual peers.

   Government could consider how they might want to support the development of multi-stakeholder models, particularly in the context of the NHS Five Year Forward View's emphasis on empowering communities. The mutual label has sometimes been perceived to be confusing and a greater emphasis on the reinvestment and social purpose characteristics may help government to mitigate the risk of spin-outs being seen as a route to privatization-by-the-back-door.

6. **Public Service Mutuals are adopting more flexible ways of working**, which are helping drive productivity and a range of benefits for staff and service users alike.

   Recommendation: To use the longitudinal research to dive deeper into the advantages and disadvantages of zero hours contracts for their organisations and staff alike. While they may be largely seen as a positive thing by the organisations, as a way of offering flexibility to staff, more evidence is needed from the staff perspective to demonstrate this to a wider audience.

7. **Public Service Mutuals are diverse in terms of gender and ethnicity.** But, while ahead of other businesses, they are still not yet not as representative of the UK as a whole at leadership level as they could be.

   Recommendation: public service mutuals can do even more to ensure that staff cohorts are well represented at leadership level. Meanwhile, other businesses can learn from what social enterprise and public service mutuals are doing to ensure that their workforces are representative of the UK more widely.

Annex A - Acknowledgements

This report was written by Dan Gregory for Social Enterprise UK. The research was designed by Dan Gregory and the wider SEUK team, with support from Alistair Ponton at Viewpoint.

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Annex B - About Social Enterprise UK

Social Enterprise UK (SEUK) was established in 2002 as the national body for social enterprise in the UK. A social enterprise is a business that trades for a social or environmental purpose and reinvests its profits in that mission.

Social enterprises are businesses driven by social or environmental objectives, whose surpluses are reinvested for that purpose in the business or in the community. They operate across a wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade and at all scales, from small businesses to large international companies.

They take a range of organisational forms from co-operatives and mutuals, to employee owned structures, Community Interest Companies, and charitable models. SEUK's members come from across the social enterprise movement, from local grassroots organisations to multimillion pound businesses that operate across the UK.

SEUK is a membership organisation. We conduct research; develop policy; campaign; build networks; support individual social enterprises; share knowledge and understanding; support private business to become more socially enterprising; and raise awareness of social enterprise and what it can achieve.

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