

PUBLIC SERVICE MUTUALS: THE STATE OF THE SECTOR

Social Enterprise UK, April 2019

A report for:



Department for
Digital, Culture
Media & Sport

In partnership with:



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Foreword

At the end of 2018, the Prime Minister Theresa May announced that “a decade after the financial crash, people need to know that the austerity it led to is over and that their hard work has paid off.” Yet our public services, our health system and local authorities face continued financial pressure and will do for many more years. The NHS Long Term Plan, for instance, sets out concerns about funding, staffing, increasing inequalities and pressures from a growing and ageing population.

Since the advent of austerity, we have heard the refrain of “doing more with less” ring out across the public service landscape. While views differ on the extent to which this is possible, we must surely all consider ways in which this might be achieved. *Doing more with less* is one way of defining productivity – the ratio between what you put in and what you get out. The economist Paul Krugman famously said that “Productivity isn't everything, but, in the long run, it is almost everything.”

Productivity¹ remains one of the most important and difficult challenges for UK policymakers. IPPR point out that “The UK has a productivity gap of between 23% and 32% between it and the otherwise comparable economies of Germany, France, the Netherlands and Belgium. It also has a gap of 17% between its current level of productivity and what it would have been if trends in the 25 years to 2007 had continued during and after the 2007–2008 financial crash.” Full Fact describe how “this isn't a new problem; things were much the same in 1991, suggesting that there are some fairly entrenched problems underlying this.”

Public service mutuals have a lot to offer in this context. The Government argues that being part of a mutual can empower employees to use their experience and insights to improve services and tackle social problems in innovative and commercially savvy ways, and increase well-being and job satisfaction. This can lead to better quality, more effective and responsive services and improved outcomes, better value services, combined with greater local impact, reinvestment in communities and partnership working.

Public service mutuals themselves consistently report benefits of the model, including more innovative services, more engaged and happier workforce and more. Evidence indicates mutuals tend to have higher productivity than non-mutuals, provide better quality services and outcomes, and have high customer satisfaction and improved staff engagement. Studies have also shown employees with a stake in the business they work for are more committed to delivering quality services and more flexible in responding to the needs of the business.

On one hand, these enterprises seem to be more productive than their peers in conventional terms. Social enterprises and mutual *spin-outs* offer a promising example of how certain parts of lower productivity sectors have been able to improve their productivity and offer significant promise for helping address the UK productivity gap more widely. On the other hand, they also provide a critical perspective on productivity that brings in greater consideration of quality and social value. We hope this research adds to the evidence base in this area and helps policymakers and public service commissioners better understand how the hard work of the staff in these enterprises delivering services to the public is indeed paying off, for mutual benefit.

¹ Productivity is generally understood as the ratio between inputs and outputs, and a measure of efficiency. In other words, how much work and money goes into generating a product or service.

Executive Summary

This report reflects the findings of our second annual survey of public service mutuals. Detailed telephone questionnaires were completed by 72 organisations.

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, on average:

1. **Social enterprises** – reinvesting profits in their mission
2. **Diverse** – working across England, across a range of sectors, both large and small - from two staff to thousands – and with more diverse staff teams and leaderships than businesses more widely
3. **Engaging staff** – with high employee engagement, involvement in decision-making or participation and new and flexible working arrangements
4. **Outperforming others and their own expectations** – growing their businesses and increasing turnover faster than they expected and surviving at a higher rate than other businesses
5. **Developing** – winning new contracts, developing new services, and innovating faster than other organisations
6. **Productive** – increasing productivity faster than public services more widely – by nearly a quarter since 2012 - despite facing additional barriers and working in tougher conditions, and while delivering additional value beyond conventional economic metrics
7. **Delivering quality** – through more responsive services and beneficiaries or service users actively involved in decision making, rated more highly than other providers, and sometimes winning new contracts on the basis of the social value they deliver

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

- **Commissioning and procurement** – and the absence of a fair playing field in terms of access to capital and transformation funding, procurement and commissioning, staff pay awards and more
- **Staff recruitment** – a rising challenge for many mutuals, perhaps reflecting wider labour market conditions.
- **Demonstrating their value** - facing limited understanding of the mutual model and the social value they offer across the markets in which they operate

Profitability



96% of public service mutuals are profitable

Productivity



Mutuals increased their productivity by 3.7% compared to 0.3% productivity growth in the wider public sector

Diversity



Over half of leaders are women

Responsive Services



88% believe being a mutual has resulted in more responsive services

Better Quality



69% have reported better quality services through being a mutual

Innovation



68% developed new products and services in the last year

Introduction

In our first annual survey of public service mutuals, we outlined how many of these businesses go back decades and have been championed across political party lines, over various waves.

From housing associations stock transfers and leisure trusts which *span out* from the public sector in the late 90s to community health services and others in the last few years, we estimate there are probably more than 400 spin-outs across the country, with some combination of social, employee-owned, not-for-profit or mutual characteristics.

Research to date paints an overall positive picture for public service mutuals but the evidence base still needs further development. Various reports by Social Enterprise UK², Middlesex University³, the Chartered Institute of Public Finance & Accountancy (CIPFA)⁴ and others have reported how these social enterprises have been growing, winning contracts, innovating with strong cultures of employee engagement, faster and easier decision-making and reduced bureaucracy and greater staff satisfaction.

SEUK and our colleagues at Middlesex University are pleased to present our second annual survey of a group of organisations that have spun out in recent years and which all share some commitment to employee ownership or participation. We aim to show the benefits, where they exist, and highlight the changes they face. This year, we have tried to gain a greater insight into their productivity and contribution to social value. DCMS hopes that this work will help build the case for the mutual model and help these businesses to flourish.

Methodology

In December 2017, Social Enterprise UK with support from DCMS, the Transform Research Alliance⁵ (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 survey⁶
- CIPFA's 2017 report into public service mutuals
- Department for Business, Energy and Industrial Strategy's Small Business Survey⁷

This draft question set was then tested with a few mutuals by our partners at Viewpoint Research. This survey formed the basis of our first report, published in April 2018.

In January 2019, we further developed our question set and Viewpoint then initiated a second round of fieldwork, conducting interviews with public service mutual leaders and representatives. In total,

² <https://www.socialenterprise.org.uk/Handlers/Download.ashx?DMF=a1051b2c-21a4-461a-896c-aca6701cc441>

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

⁴

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/603356/Research_into_the_Public_Service_Mutuals.pdf

⁵ Transform Research Alliance (TRA) is a Charitable Incorporated Organisation. It is an alliance of health and social care providers, who are all social enterprises.

⁶ <https://www.socialenterprise.org.uk/pages/category/state-of-social-enterprise-reports>

⁷ <https://www.gov.uk/government/statistics/small-business-survey-2017-businesses-with-employees>

72 respondents completed the survey. 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, from across England. While it cannot be perfectly representative, it paints a broadly accurate picture of the wider sector. Interviews were largely with CEOs and a handful of others with other senior staff including Deputy CEOs, Heads of Human Resources, Heads of Finance and so on.

This report has been reviewed by Fergus Lyon and Ian Vickers at Middlesex University and takes into account feedback from the DCMS Mutuals Team.

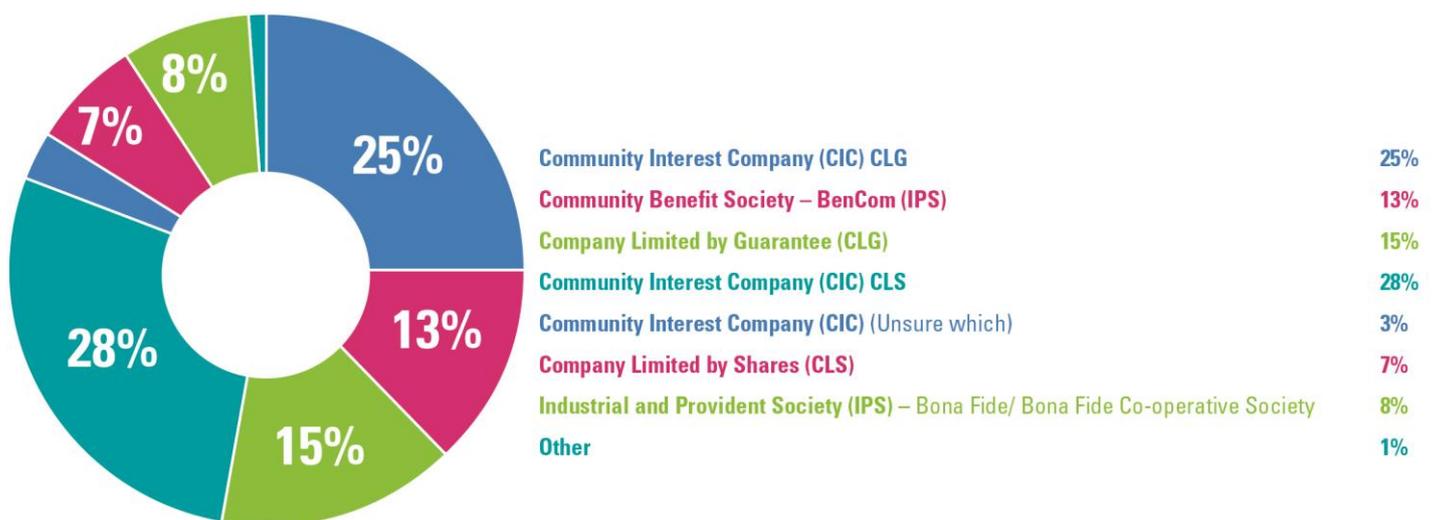
Findings

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

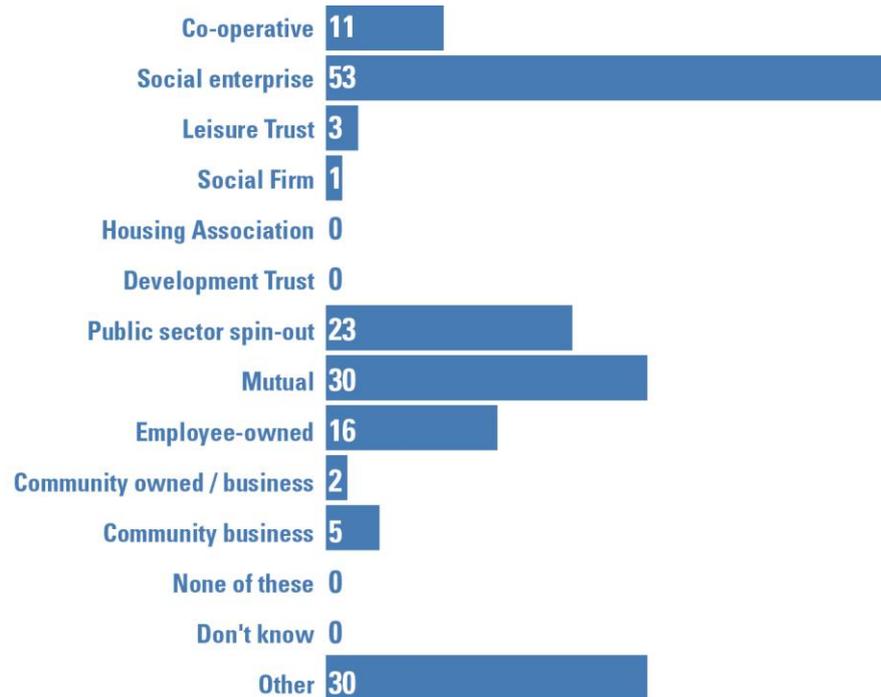
Legal forms, ownership and identity

The 72 public service mutuals we interviewed had adopted a range of legal form and ownership models, identifying themselves in a range of ways.

Over half took the form of a Community Interest Company (CIC), the same as last year, while nine were Community Benefit Societies, a few more than in our cohort last year. Six took the form of Bonafide Co-operative Societies, five were Companies Limited by Share and ten were registered as charities, all similar to the previous year. As with the wider social sector, there are diverse reasons for why businesses adopt these legal forms: alternatively due to a commitment to democratic ownership; to the principle of not distributing profits or having a legal asset lock; because of tax or regulatory considerations; or in order to communicate a commitment to a social purpose to stakeholders, often also influenced by advice from consultants and advisers.

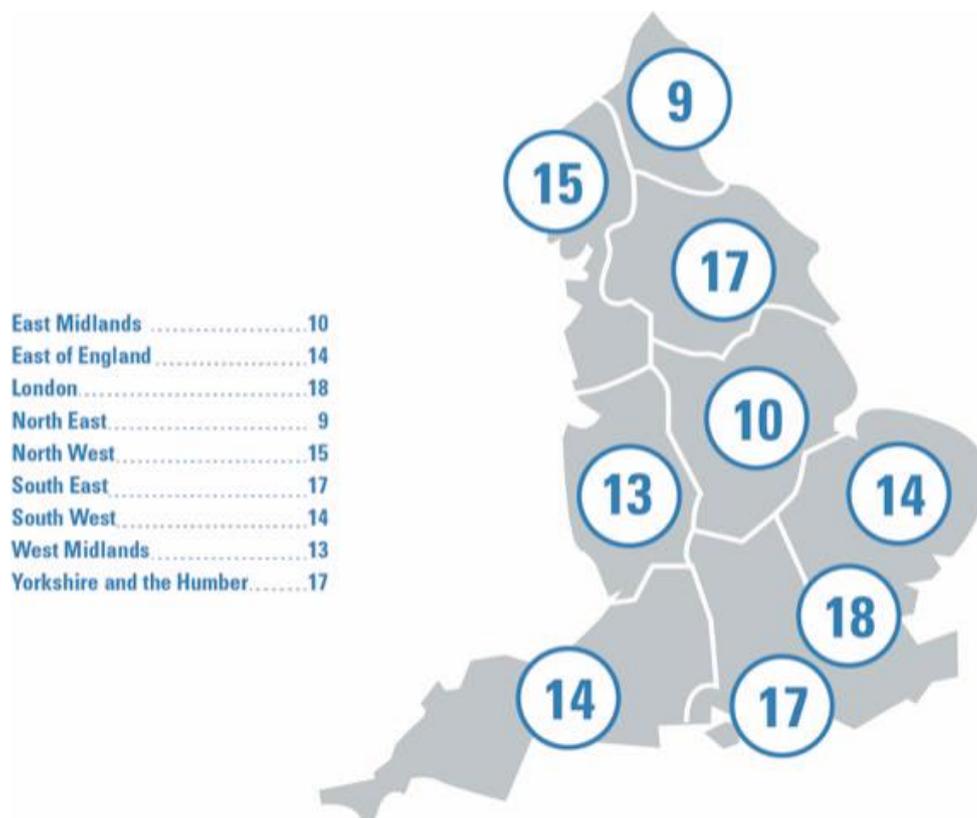


In terms of how they identified themselves, by far the most popular responses among interview respondents was, as previously, as a *social enterprise* – 53 of the 72 respondents identified this way. Respondents were able to choose multiple responses but no other term was adopted by more than half of respondents. Thirty identified as *mutuals* and 23 identified as *public sector spin-outs*. Sixteen described themselves as *employee owned* and eleven identified as *co-operatives*, all similar to the previous year.



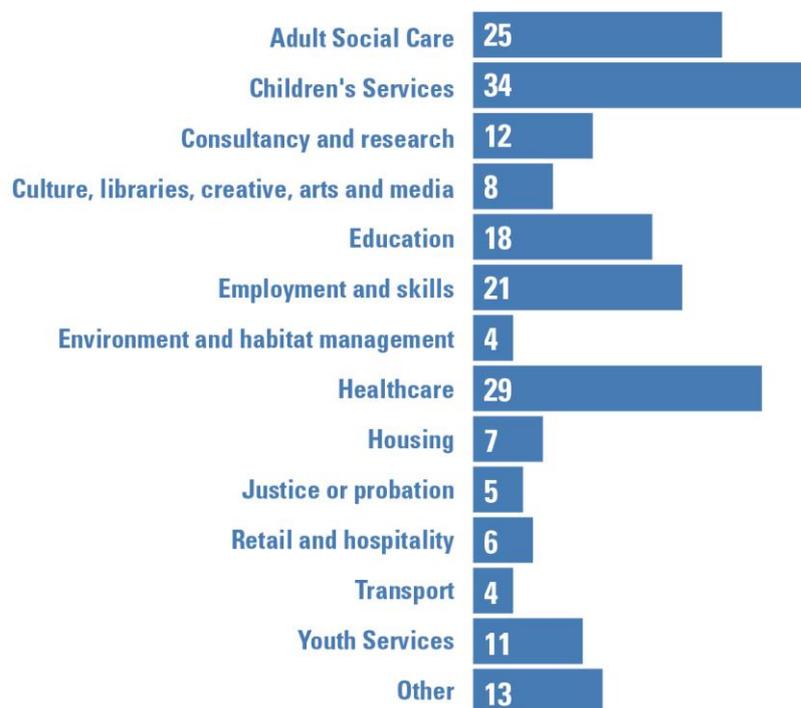
Regions and sectors

The enterprises surveyed are active in all of the English regions⁸. Again, a higher proportion were in London and the South East than other areas, this year joined by Yorkshire and the Humber. The North East had the lowest representation, as per the previous year.



⁸ DCMS responsibility is England only

Public service mutuals work in a diverse range of sectors, including care, the creative industries and transport as well as catering, building control, leisure, housing, heritage, pensions administration, manufacturing and horticulture. These businesses are truly diverse and many work across multiple sectors. Again, just under half the respondents - 29 - work in healthcare, while 25 work in adult social care. This year, we found more respondents working to deliver children's services - 34 compared to 27 last year. Consultancy, education, employment and skills and youth services are also significant sectors in which these businesses operate.



Staff engagement

As identified in our 2018 report, the majority of the public service mutuals reported a significant degree of employee engagement or participation. At least half of the respondents continued to report having staff representative(s) on the organisation's board, "Open door" policies⁹, staff engagement forums and so on, consistent with previous research. All organisations in our sample reported that they had some meaningful mechanism for staff engagement.

Staff voting rights were a feature for around half of the businesses, similar to last year. Only one organisation reported that staff were not actively involved in decision-making to a large or some extent. This was one of the largest organisations in our survey, with thousands of staff, perhaps reflecting the challenge in genuinely spreading the mutual approach across such a large business. Again, the majority reported that their beneficiaries or service users were actively involved in decision making, and more than half also reported that their community were actively involved to a large or some extent, consistent with previous years.

⁹ Generally understood to mean, partly literally and partly metaphorically, that managers' doors are open to encourage and allow staff easy access to ask questions, discuss issues, make suggestions and address problems or concerns.

This year’s survey confirmed findings last year that these organisations have introduced new and more flexible working arrangements for staff since spinning out of the public sector. This includes term time working and job sharing, as well as more organisations adopting zero hours contracts and on-call working.

Unfortunately, our survey respondents adopt a very diverse range of methods for assessing *staff engagement*, which makes drawing conclusions and comparisons problematic. It appears that only four take the NHS staff survey. Nevertheless, reported staff *satisfaction rates* and staff *engagement* scores, where available, do seem to compare favourably to other benchmarks such as the NHS staff engagement score, for instance.¹⁰

Benefits

We asked the public service mutuals what benefits they had seen as a result of becoming a mutual. Previously, the most popular response was ‘a more engaged and happier workforce’ but this year, the most frequent response was ‘more responsive services’ – for 88% of respondents. This is perhaps a logical progression as a spin-out matures, with changes initially being felt by staff which, in turn, leads to service transformation a little later. Better value for money services and more innovative services were the other most frequently reported benefits, for at least three quarters of the businesses.



We then asked the public service mutuals what had been instrumental in driving these reported benefits. As reported previously, the overwhelming responses were faster or easier decision making, and reduced bureaucracy (compared to experiences when in the public sector), for 93% of respondents. Improved access to investment and to markets were slightly higher than previously at nearly one in three, up on around one in four last year. 93% of public service mutuals reported that they had introduced a new or significantly improved service in the last three years. This is significantly higher than either the wider social enterprise community and among other businesses more widely.

¹⁰ https://www.nhsstaffsurveys.com/Caches/Files/ST18_National%20briefing_FINAL_20190225.pdf

Workforce, leadership and diversity

Public service mutual workforces range from two staff members to as many as 14,000 full time equivalents.

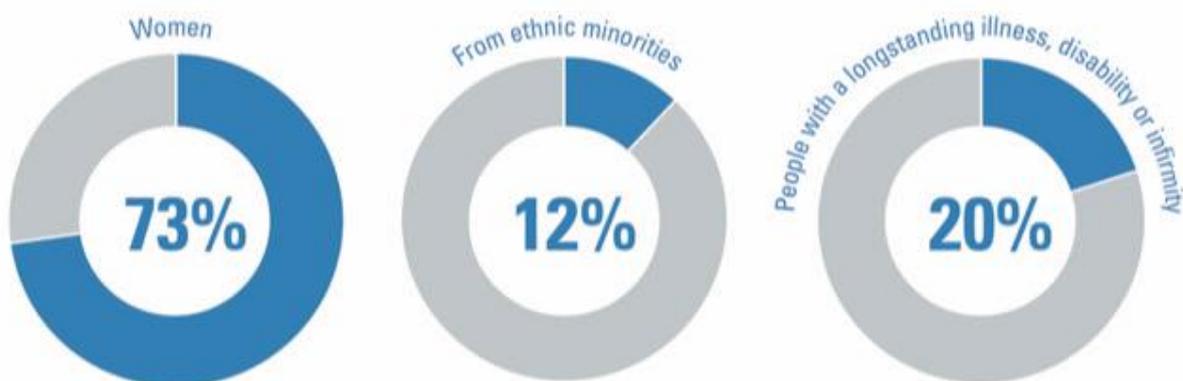
Last year, we reported that, on average, public service mutuals had grown their workforce since creation but had also seen a decrease in staff numbers over the latest two years. This was perhaps to be expected as some spin-outs emerged before the advent of austerity while staff numbers in public services have more recently fallen, with the number of mental health nurses, for instance, in decline between November 2009 and 2018¹¹, and local government public sector employment falling every year since 2010.¹² Mutuals had also previously expected to see small decreases in staff in the following twelve months. Those who told us about expected staff numbers for next year again told us they anticipated numbers to fall - by over 10%.

Yet these businesses had, in fact, grown their workforce over the last year by an average of 7.5%, bucking wider and previous trends, and their own expectations.

In terms of the make-up of the workforce itself, an average of 73% of the staff of public service mutuals are women, nearly identical to last year, while 12% were of BAME background, lower than the 17% reported last year, but very similar to the pattern of UK population more widely.

When it comes to leadership, respondents again reported that over half of the Directors or people on their leadership teams were women and over 11% were from ethnic minorities, both higher than patterns of business leadership more widely. This may be partly about the sectors in which these businesses operate and also linked to their geographical spread, but it may also be due to their commitment to a more inclusive ethos than other businesses. On average, 20% of staff and over 7% of leaderships teams at each public service mutual have a “longstanding illness, disability or infirmity”. Some public service mutuals have deliberately set out to employ people who may otherwise find it difficult to enter the labour market.

Approximately what proportion of your workforce is made up of



¹¹ <https://www.nuffieldtrust.org.uk/resource/the-nhs-workforce-in-numbers#3-what-do-the-shortages-look-like-within-hospital-services>

¹² <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/publicsectoremployment/december2018>

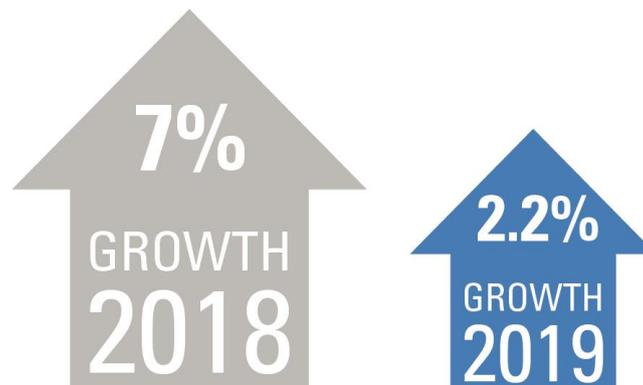
Income and profit

Last year, the total reported turnover of the 75 mutuals surveyed was nearly £1 billion, allowing us to estimate, assuming 115 mutuals in all, a combined turnover of over £1.6 billion. DCMS holds a list of now 129 active organisations which it classifies as public service mutuals. Taking those for which data is available, total turnover is £1.6 billion (which could mean total turnover of around £2.3 billion if those whose data is missing were of similar size).

This year, the total reported turnover of the 72 public service mutuals we surveyed (at the end of the most recent full financial year) was nearly £1.4 billion. This represents an average turnover of around £22 million, up on the average of around £14 million per organisation, although this is largely due to the variation in organisations responding to our survey, rather than increases in income at each business.

Using a trimmed mean¹³ to guard against outliers distorting the average, we find a figure of £17.8 million per organisation. This allows us to estimate a total figure for the 129 mutuals or around £2.3 billion (close to the estimation based on DCMS data). We can therefore prudently conclude that combined turnover of the public service mutuals sector is over £2 billion.

We can also look at turnover for the 72 businesses from this year's survey compared to their previous performance. This was indeed up, from around £21.5 million each, equivalent to 2.2% growth for the year¹⁴. While this is less than last year, when we saw 7% growth, it nevertheless exceeded expectations - as last year our survey respondents were cautious about future growth, on average, predicting turnover would fall slightly over the coming year.



¹³ A trimmed mean is calculated by discarding, in this case, 5% of both the lowest and the highest data points and then calculating the mean of the remaining data. It is intended to reduce the risk of outliers significantly distorting averages.

¹⁴ Not inflation adjusted

In terms of profit, those who responded reported total net profits of over £21 million in the most recent financial year, with only three organisations reporting a loss, fewer than the six last year. This means 96% of public service mutuals are profitable and commercially viable businesses.



This compares favourably to other parts of the health system for example, where around half of NHS trusts were expecting to end 2018-19 in deficit¹⁵. This is despite 2018/19 support from central sustainability funding pots of £2.45 billion. The average profit margin for mutuals was over 1.5% of turnover or around £0.4 million per public service mutual, slightly down on last year. This may reflect the commercial conditions in public service markets, where some significant private sector players have run into serious problems in recent times. But it may also reflect how mutuals seek to build up reserves in their early years from a standing start but later, as they mature and stabilise, they - like many social sector organisations more widely - may intentionally dampen profits and choose to redirect potential profits to their social mission in year, rather than carrying it forward across accounting periods. The public service mutuals reported that, on average, 92% of profits are being reinvested in the organisations, their mission or development.

Of course businesses in all sectors and with a range of ownership and governance models sometimes run into difficulty. Public service mutuals and social enterprises are no different. Yet the evidence seems to suggest that ‘failure rates’ among these organisations appear to be lower than other businesses. The UK five-year survival rate for businesses born in 2011 and still active in 2016 was 44.1% while the health sector, for instance, has a “notably high five-year survival rate” of 54.1%. Yet the vast majority¹⁶ of public service mutuals are still operating over a similar timescale.

Despite this positive picture, we know of several well established mutuals dissolved in 2018. The reasons behind these handful of closures are diverse. Be Independent was set up as a Community Interest Company to run telecare alarm systems and specialist equipment for older and disabled people in York. It was set up in 2014 with expectations that customer numbers could grow. However, trade started to fall and the CIC lost a contract with York NHS. Staff transferred back in-house in August 2018. Meanwhile, Spiral Health CIC was the only nurse led, bed-based, intermediate care mutual in the UK, having spun out of Blackpool Teaching Hospitals Foundation Trust in 2012 but it also closed in 2018.

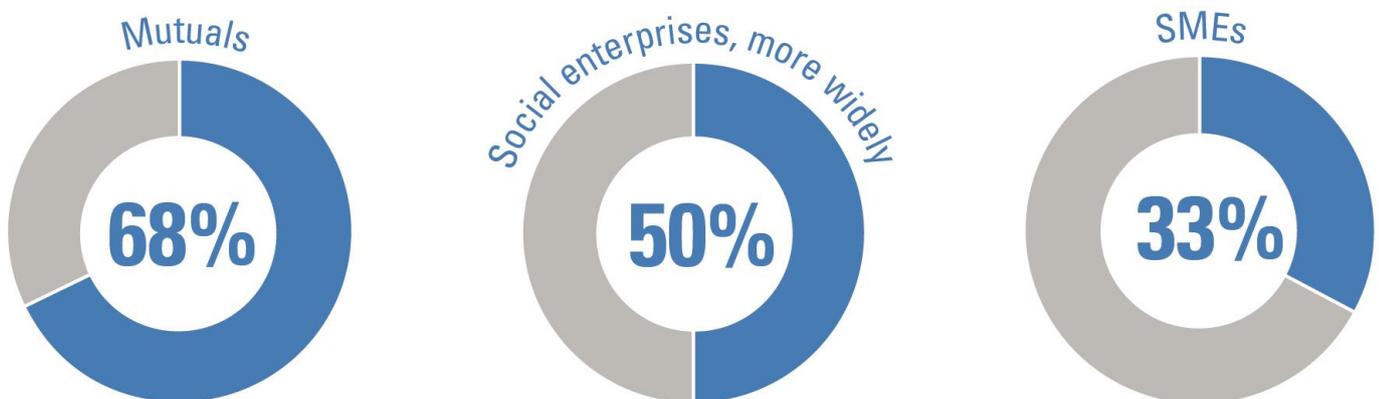
¹⁵ <https://www.kingsfund.org.uk/projects/nhs-in-a-nutshell/trusts-deficit>

¹⁶ We believe the percentage is over 95% but cannot be certain as not all mutuals responded to our survey and there may be a number of mutuals of which DCMS is not aware.

Unsurprisingly, the largest proportion of public service mutuals' income comes from trading with the public sector, averaging around 80% for those who have a commercial relationship with government. Other sources of income include grants, trading with the general public, trading with the private sector and with other third sector organisations. The majority of public service mutuals hold around 10 contracts or financial relationships with different parts of the public sector, similar to last year.

Most of these businesses are still delivering their original contracts while also winning other public sector contracts in their original service areas and expanding trading with individual customers or into new areas. Over two thirds reported developing new products and services over the past 12 months, higher than the proportion of social enterprises (50%) and SMEs (33%)¹⁷. This is consistent with our own and other 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.

Developing new products and services



Of course, there are still risks for some mutuals when one or a few contracts are still of critical importance. Compass Wellbeing also closed in 2018 after providing Psychology & Counselling Services in Tower Hamlets for the past 5 years. It was the first service of its kind to have psychologists and counsellors embedded in practices. Following a procurement process led by NHS Tower Hamlets Clinical Commissioning Group, the contract for Primary Care Psychological Therapy Services in Tower Hamlets was awarded to a statutory provider.

¹⁷ <https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441>

When it comes to future plans, public service mutuals continue to plan to grow in a number of ways, with over half reporting that they aim to increase sales with existing customers, and around half aiming to diversify into new markets, expand into new geographic areas, develop new products and services or attract new customers or clients.



Finance

In terms of access to finance, over a third of these businesses use credit cards¹⁸, similar to last year, while around a quarter access government, local authority or other grants. Commercial mortgages were accessed by nearly 14% of these businesses but significantly, a similar number of public service mutuals received loans from government or local authorities, reflecting research more widely in this area, which suggests that tens of millions of pounds are invested by local and national government in social enterprises.¹⁹

These enterprises report significant success in accessing all or some of the finance they are seeking with only three finding they were not able to access any of the finance they needed, reinforcing last year's findings. This suggests they are similarly or even more successful in attracting finance compared to social enterprises more widely, where 13% applying for loans are unsuccessful²⁰.

The most common reason for seeking finance was for buying, renting, leasing or improving buildings or land, a change from last year when more had been seeking investment in new or significantly improved processes, plans, goods or services. This perhaps reflects a shift in strategies, turning to consolidation in challenging times, rather than seeking to expand. On average, those seeking finance had sought to raise over £1.1 million in the last 12 months, up on £900k in the previous year²¹. They had also been much more successful than previously, raising around 60% of this target, compared to around 25% previously. There were two distinct groups, more or less, with some organisations seeking millions of pounds and others seeking just a few or tens of thousands.

¹⁸ For more detail see, for example, <https://www.gocompare.com/credit-cards/business/>

¹⁹ https://www.powertochange.org.uk/wp-content/uploads/2017/09/PTC_UncharteredInvestment.pdf

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

²¹ One outlier removed - one public service mutual housing association reported seeking to raise £80m.

Social Value

For the first time this year, we asked respondents whether they had seen social value²² appear in public sector tenders and commissioning documents over the past 12 months. Around half reported that they had. We also asked them whether social value considerations had been a factor in winning any contracts in this period and around a quarter of respondents responded that it had been.

We also asked these businesses which main tool or method they use to measure their social impact, if any. The most frequent answer was Social Return on Investment (SROI), for 30% of respondents, while nearly as many (26%) reported they did not use any. Other common answers included Social Accounting and Audit (SAN), Outcomes Star and The Local Impact Measurement Tool. But many respondents suggested other means, including support from academics, user satisfaction ratings, various theories of change, bespoke methodologies, whatever commissioners required, and more.

Productivity

This year, we sought to capture data which allows better comparison to wider UK public service productivity data. Productivity is, in short, outputs divided by inputs. The Office for National Statistics (ONS) measure public service productivity by comparing growth in the total amount of output with growth in the total amount of inputs used.

- *Inputs* measured include labour inputs, ideally measured in hours worked; goods and services used up in production, such as heating and lighting costs, etc.; and the annual use of fixed capital assets, such as buildings, etc. We therefore asked our survey respondents about how much they spend buying in external goods and services, as well as capital costs and depreciation. Less than half provided reliable figures so at the moment our assessment of the productivity of public service mutuals does not represent *multi* or *total factor productivity*²³ and we consider inputs only in term of labour.
- Outputs are measured by the ONS in terms of the quantity of certain activities, supplemented by quality measures. For example, in healthcare, there are detailed records of health procedures carried out, there are pupil attendance records separately available for primary and secondary education; for adult social care, there are records of numbers of people being looked after in care homes and of attendances at various day-care settings. With our survey sample it is extremely difficult to assess on this basis, as our mutuals work across diverse markets and deliver a rich mix of services. The data we received is not consistent enough to allow us to confidently draw meaningful comparisons with public services more widely or certain sectors.

Here then, we present analysis not in terms of multi-factor productivity and quality outputs but at its most simple, in term of labour inputs and value of services delivered, or turnover, as outputs.

Last year's research found that average staff numbers had risen from commencement of trading among public service mutuals, from 197 to 249 in the most recent financial year, while average turnover had risen from £10.2 million to £15.5 million over the same period (around 5 years on

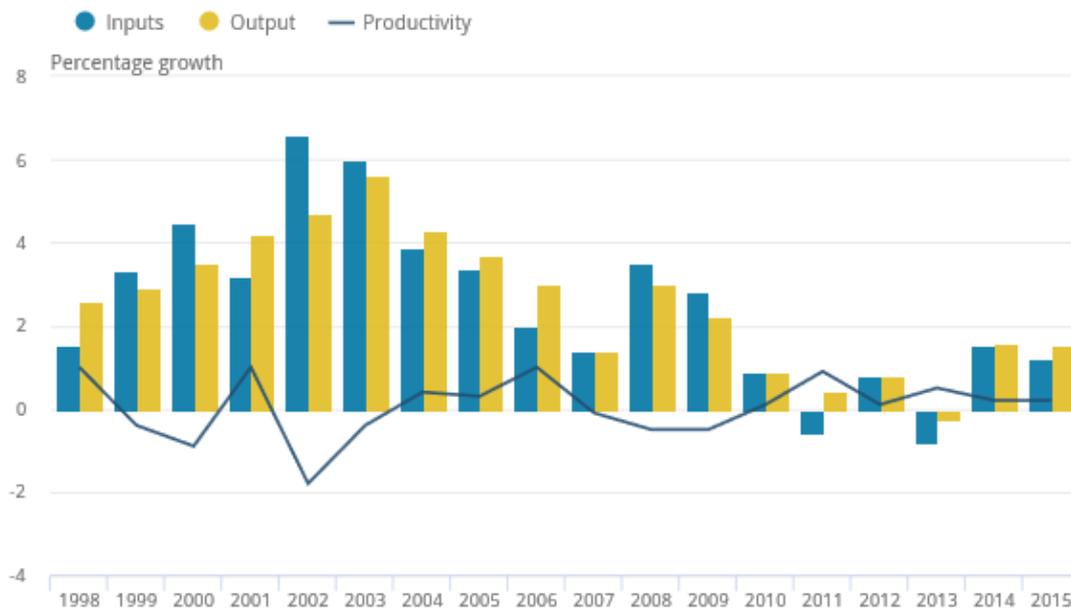
²² <https://www.gov.uk/government/publications/social-value-act-introductory-guide>

²³ <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/methodologies/asimpleguidetomultifactorproductivity>

average). This represents an increase in productivity by these terms of around 20% in total or 4% per year from 2012 to 2017.

We assessed respondents this year on the same basis and found that staff numbers had risen from 233 to 316 since spinning out, while average turnover had risen from £13.3 million to £22 million over the same period, which was 6 years on average. This represents an increase in productivity of 22% in total or 3.7% per year since 2012, similar to last year.

Figure 3: Total public service inputs, output and productivity growth rates, 1998 to 2015, UK

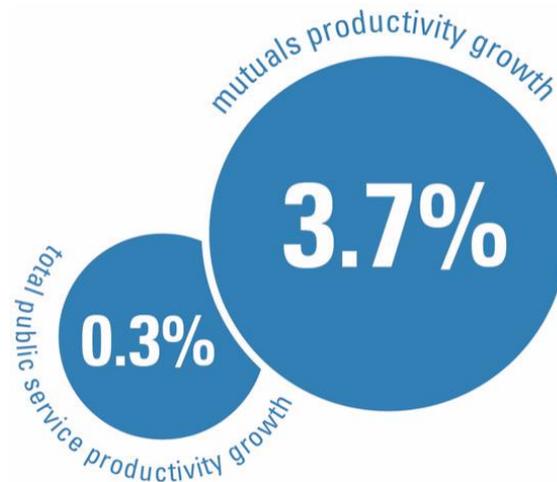


Source: Office for National Statistics

Between 2009 and 2015, total public service productivity is estimated to have increased by 2.0% – around 0.3% growth per year²⁴. The average annual growth rate of UK public service healthcare productivity from 1995 to 2015 was 0.8% per year. Although these are multi-factor productivity estimates as opposed to labour productivity estimates, they are nevertheless much lower than the apparent increase in productivity amongst public service mutuals.

²⁴

<https://www.ons.gov.uk/economy/economicoutputandproductivity/publicservicesproductivity/articles/publicservicesproductivityestimatetotalpublicservices/2015>



This appears to be a remarkable achievement. Even more so for the following reasons:

- First, because those businesses delivering healthcare largely struggle to access NHS capital funding on the same terms as public bodies and sometimes report that access to finance remains a challenge.
- Second, for these enterprises, conventional measures of productivity do not capture the full scope of their value. For many businesses, including these public service mutuals, their intended output is not purely financial or economic but *social*. As we know from discussions around the usefulness of GDP as a measure of progress, financial metrics do not tend to capture positive and negative social and environmental externalities produced by *economic* activity.
- Third, many social sector organisations, including those surveyed here, often intentionally choose to work with lowerskilled individuals, take on a greater proportion of staff with disabilities, work in sectors which are not capital intensive and operate in geographical areas which are not well served by infrastructure, which we might expect to limit their relative productivity, as conventionally assessed.

Quality

This performance in terms of labour productivity is even more remarkable if we consider other, quality measures of output, where these businesses are scoring good and outstanding Care Quality Commission (CQC) ratings, and outperforming others in terms of feedback from patients and so on. The CQC rates services as either Outstanding, Good, Requires improvement or Inadequate. For those businesses we surveyed with services rated by the CQC, some deliver a range of services with different ratings, in which case we took the average rating. One organisation was rated as delivering outstanding services, 18 were rated good, 2 had an equal balance of good and requires improvement ratings and 1 required improvement overall.

This is a better performance than the average for adult social care services in England as a whole, for instance, where nearly a fifth of services were rated as requiring improvement and 2% are rated as inadequate²⁵. Less than one in seven mutuals required improvement (or a mix of good and required improvement) and none were deemed inadequate. This also stand up well in the context of mental

²⁵ <https://www.cqc.org.uk/publications/major-report/state-adult-social-care-services-2014-2017>

health rating overall²⁶, where 74% of services were rated as good or outstanding at the end of 2017 compared to 87% of mutuals, and 25% of statutory services were rated as requiring improvement and 23% of independent core services, compared to 13% of mutuals requiring improvement (or a mix of good and requiring improvement). For those rated by the Office for Standards in Education, Children's Services and Skills (OFSTED), four mutuals were rated Good and one Excellent.

For those who adopted the NHS Friends and Family recommendation test²⁷, the average score was 95%. This Friends and Family Test (FFT) is an important feedback tool that gives the people who use NHS services the opportunity to provide feedback on their experience. The FFT asks people if they would recommend the services they have used and offers a range of responses. For community services more widely, the average rating is 95% and for mental health services, 89%, suggesting that public service mutuals are performing at or above average across these areas.²⁸

Barriers

Public service mutuals continue to report a wide range of barriers to growth. It is clear, however, that recruiting staff has become a much more significant challenge for these businesses over the last 12 months, with over a third reporting this as a big issue, from around 15% last year. Many mutuals work in the health sector, where The King's Fund, the Health Foundation and the Nuffield Trust reported in 2018 that there were "critical and lasting shortages in the healthcare workforce"²⁹. Yet staff recruitment was not only a challenge in the health or social care sectors, suggesting a wider trend, if not in the mutual sector then across the economy more widely.

Poor commissioning and procurement practice remains the most significant identified challenge, however, consistent with previous research³⁰. Access to finance also remains a relatively infrequent barrier for public service mutuals; still less significant than a range of other issues, from obtaining grant funding to time pressures and various taxation and regulatory challenges. These regulatory challenges include a lack of access to policies and funding which are available to statutory providers, such as NHS pay awards and the allocation of capital and transformation funding, which is denied to public service mutuals, thereby creating an unfair playing field.

SEQOL delivered integrated community health and social care services in Swindon. In March 2016, their core contract for Integrated Adult Community Health Services was retendered. After considering the contractual terms on offer, SEQOL notified the CCG that they were considering their options in terms of sustainability and voted to cease trading and transition services to alternative providers at the end of August 2016. The CCG and Swindon Borough Council were left with costs to pick up to enable a safe transfer of services and continuity of care for the population, estimated at circa £5.5m. The CCG was then also left with just one preferred bidder – the local NHS trust - which ended up negotiating a deal worth £2m p.a. more than the CCG had originally proposed.

²⁶ https://www.cqc.org.uk/sites/default/files/20170720_stateofmh_report.pdf

²⁷ <https://www.england.nhs.uk/fft/>

²⁸ <https://www.england.nhs.uk/publication/friends-and-family-test-data-december-2018/>

²⁹ <https://www.kingsfund.org.uk/press/press-releases/staffing-shortfall-major-risk-nhs-long-term-plan>

³⁰

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/603356/Research_into_the_Public_Service_Mutuals.pdf

As found previously, the response “Poor commissioning/procurement” covered a lot of different aspects so we asked respondents the biggest problem they faced when it comes to commissioning and procurement. The most frequent answers included the public sector financial situation, as well as limited understanding of social value and of mutuals/social enterprise amongst commissioners, and the time and complexity of the commissioning and procurement process. Proposed changes to NHS policy may pose significant and existential risks for those mutuals working in health care as NHS England appears to be shifting in the name of integration towards a model based around a single, large, health provider, which may leave little room for the diversity of mutuals and social enterprises.

Peninsula Community Health Community Interest Company (PCH) was recognised by the Health Services Journal as one of their 100 best places to work in healthcare, it was the first community hospital in the country to receive the GSF Quality Standard for end of life care and made significant improvements in the delivery of services particularly patient flow, community nursing and innovation since it span out from the statutory sector in Cornwall. In July 2015, PCH confirmed that it would not be seeking to extend its contract to provide community care in Cornwall and the Isles of Scilly beyond March 2016. Staff and services transferred to Cornwall Partnership NHS Foundation Trust on 1 April 2016.

Recommendations

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

1. HM Treasury should instigate an inquiry into how the productivity benefits realised by public service mutuals may be replicated across public services more widely, working with a range of other government departments.
2. The ONS should commit to explore how the mutuals experience can inform their approach to understanding public sector productivity, giving greater consideration to genuine service quality and external impacts not captured in current service output metrics.
3. Social Enterprise UK should explore how it can adapt its member badge to enable public service mutuals which primarily identify as social enterprises but also as mutuals to better communicate these identities in their branding, marketing and communication materials.
4. The Competition and Market Authority should explore issues of competitive neutrality, distorting competition and the fair playing field in markets in which public service mutuals operate, including healthcare, covering issues such as equal access to capital and transformation funding, procurement and commissioning, staff pay awards and more.
5. DCMS should undertake an investigation into the causes of business closures and 'failures' in order to learn lessons to better support the development of other mutuals in future.
6. Public service mutuals, with the support of DCMS, should commit to work towards methods for assessing staff engagement which can be comparable across sectors and with other organisations, ensuring some questions are consistent with other established surveys, such as the NHS staff survey.
7. DCMS should work to ensure greater understanding, uptake, monitoring, reporting and evaluation of Social Value in procurement across national government departments, local government and other statutory agencies, reporting on an annual basis.
8. Public service mutuals should explore what more they might do to ensure BAME employees, staff with disabilities and women are supported to play a greater role at senior management level and on boards.
9. DCMS and Big Society Capital, in their work to encourage investment in social enterprise, should give greater consideration to the role played by credit card facilities and finance from local authorities and other statutory sources.

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 – Glossary of Terms and Acronyms

Asset lock - An asset lock is a constitutional device that prevents the distribution of residual assets to members. The purpose of an asset lock is to ensure that the public benefit or community benefit of any retained surplus or residual value cannot be appropriated for private benefit of members.³¹

BAME - the UK population is made up of different ethnicities. 87% of people are White, and 13% belong to a Black, Asian, Mixed or Other ethnic group.³²

BEIS - Department for Business, Energy & Industrial Strategy

CCG - Clinical Commissioning Groups (CCGs) were created following the Health and Social Care Act in 2012 and replaced Primary Care Trusts on 1 April 2013. They are clinically-led statutory NHS bodies responsible for the planning and commissioning of health care services for their local area.³³

CIC - A Community Interest Company (CIC) is a limited company, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage.³⁴

CIPFA - CIPFA is the leading accountancy body for the public services providing education and training in accountancy and financial management.³⁵

Community Benefit Societies - before 1 August 2014, all societies registered under the Industrial and Provident Societies Act 1965 (or its predecessors) were legally referred to as ‘industrial and provident societies’, whatever they called themselves. From 1 August 2014 they are referred to as ‘registered societies’ and either as a co-operative society, or a community benefit society.³⁶

Companies Limited by Shares - Most limited companies are ‘limited by shares’. This means they’re owned by shareholders, who have certain rights. For example, directors may need shareholders to vote and agree changes to the company.³⁷

Co-operative Societies - before 1 August 2014, all societies registered under the Industrial and Provident Societies Act 1965 (or its predecessors) were legally referred to as ‘industrial and provident societies’, whatever they called themselves. From 1 August 2014 they are referred to as ‘registered societies’ and either as a co-operative society, or a community benefit society.³⁸

CQC - The independent regulator of health and social care in England³⁹.

DCMS - The Department for Digital, Culture, Media & Sport.

OFSTED - Ofsted is the Office for Standards in Education, Children’s Services and Skills.⁴⁰

³¹ <https://communityshares.org.uk/resources/handbook/asset-lock-provisions>

³² <https://www.ethnicity-facts-figures.service.gov.uk/ethnicity-in-the-uk>

³³ <https://www.nhscc.org/ccgs/>

³⁴ <https://www.gov.uk/government/publications/community-interest-companies-business-activities>

³⁵ <https://www.cipfa.org/>

³⁶ *ibid*

³⁷ <https://www.gov.uk/limited-company-formation/shareholders>

³⁸ <https://www.fca.org.uk/firms/registered-societies-introduction/co-operative-community-benefit-societies-act-2014>

³⁹ <https://www.cqc.org.uk/>

⁴⁰ <https://www.gov.uk/government/organisations/ofsted>

ONS - The UK's largest independent producer of official statistics and the recognised national statistical institute of the UK.⁴¹

SAN - the Social Audit Network (SAN) is a not-for-profit organisation which facilitates the exchange of information and experience between practitioners of social accounting and audit in the social economy and voluntary sectors.⁴²

SEUK – the national body for social enterprise - business with a social or environmental mission.⁴³

Social enterprise - Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners.

Social value – The Public Services (Social Value) Act 2012 requires public authorities to have regard to economic, social and environmental well-being in connection with public services contracts.

SROI – the Social Return on Investment methodology aims to provide a clear framework for anyone interested in measuring, managing and accounting for social value or social impact.⁴⁴

⁴¹ <https://www.ons.gov.uk/>

⁴² <http://www.socialauditnetwork.org.uk/>

⁴³ <https://www.socialenterprise.org.uk/>

⁴⁴ <http://www.socialvalueuk.org/resource/a-guide-to-social-return-on-investment-2012/>

Annex C - 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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