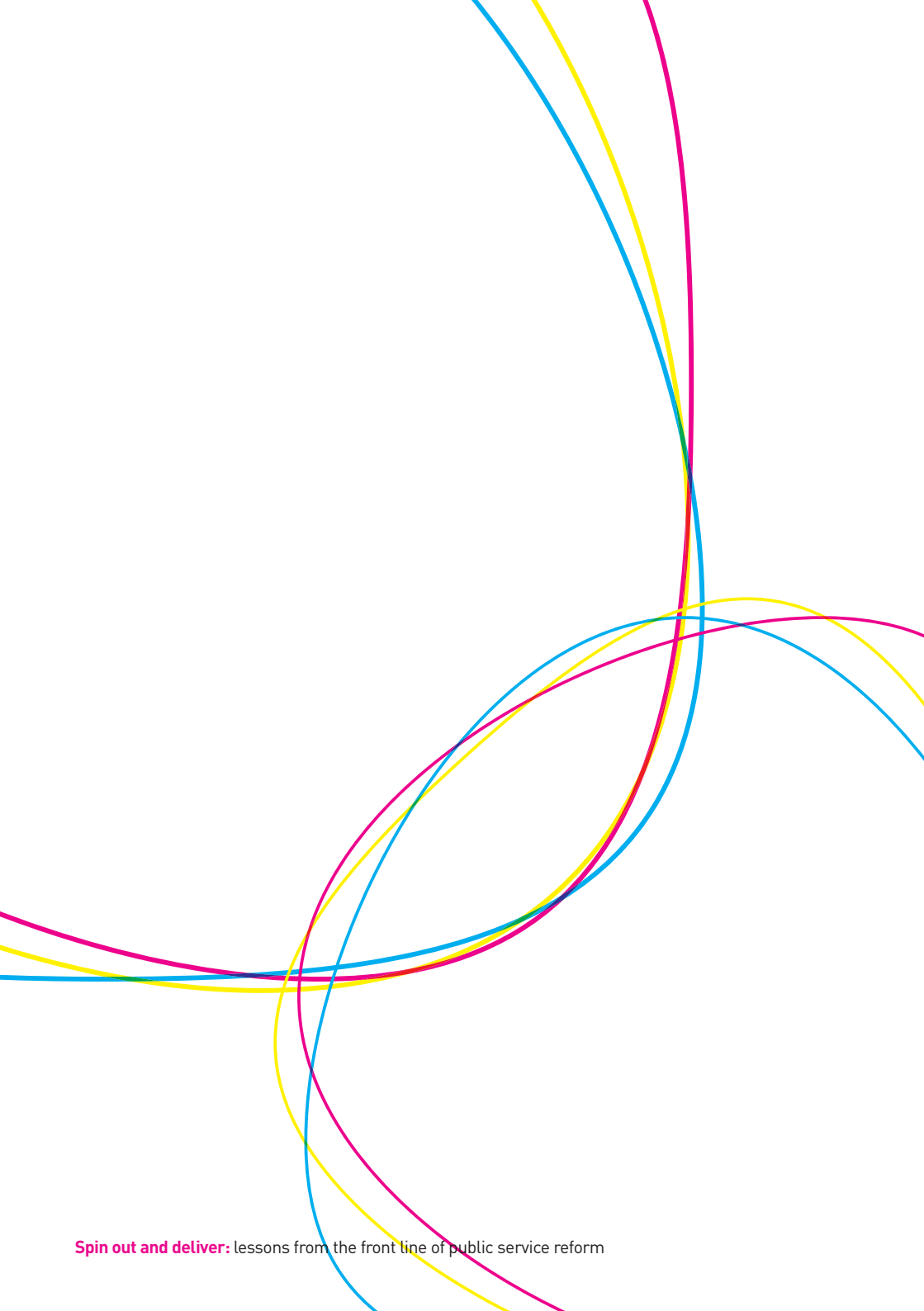




Spin out and deliver

lessons from the front line
of public service reform



Foreword

At Social Enterprise London (SEL), we're privileged to be working with some of the most extraordinary public servants in the country, supporting them to create organisations that have the potential to be outstanding social enterprises through our groundbreaking Transitions programme. This short guide summarises the key findings we've made during our first year working in the field. We're publishing it because much of what we're learning directly contradicts the assumptions made about how spin-outs work. For this reason I think it's worth a read.

If you're currently going through the process of establishing a spin-out, then I hope you take heart from the comments here. What's come through loud and clear from the Transitions programme is that if you have the stomach for the challenge then the potential is there to revolutionise the way your service is

delivered. If your role is to support the emergence of spin-out services from a council, then my hope is that you take the content of this paper seriously. The key message is that if the people leading emerging spin-outs are not given access to the time, expertise and support to create a new business then the process will not work. In short, staff must be given the space to create the organisation for themselves, you cannot do social enterprise to them.

SEL's role supporting spin-outs is to prepare the path, giving the knowledge and information that staff need, enabling them to enter negotiations and write business plans with confidence. We work directly with public bodies, developing organisational understanding of how spin-outs can improve delivery and create efficiencies. **If you would like to explore working with us, call 020 7033 2604 or e-mail info@sel.org.uk for a free consultation.**

Allison Ogden-Newton
Chief Executive, Social Enterprise London

Introduction

In October 2010, SEL, working in partnership with London Councils and Capital Ambition, published *Transitions*, the first comprehensive guide to establishing a social enterprise out of the public sector. Since then, a remarkable ground swell of enthusiasm for the creation of public service social enterprises has developed.

This paper summarises the key learning points emerging from the *Transitions* programme so far, providing tips and guidance for public sector staff exploring the potential to create a spin-out organisation. The evidence gathered is from working with organisations emerging from public bodies since the autumn of 2010. The organisations we are working with are currently at delicate, pre-launch stages of development and as such we do not use any of them as specific case studies. Rather, we have drawn lessons from across our public sector work to present a series of findings. The aim is to inform the debate and to present early learning from the front line of public service reform.

To take up any of the points raised here or to access the *Transitions* programme contact SEL on 020 7033 2604 or e-mail info@sel.org.uk.



Background

Transitions emerged in order to meet the gap between enthusiasm for the creation of social enterprise spin-outs and a clear lack of knowledge and experience of public sector workers in how to make it happen.

The central commitment for the creation of social enterprise spin-outs emerged in the days following the creation of the Coalition Government in May 2010. It committed to put more power into people's hands by: "giving public sector workers a new right to form employee-owned co-operatives and bid to take over the services they deliver" (Building the Big Society, May 2010). But what does this really mean: is there a demand from public sector workers to make it happen and how does it align to government commitments to radically reduce public sector spending?

SEL has already worked with staff from over 50 local authorities, health authorities, quangos and central government departments across the country, supporting them to develop in the following key areas:

- Providing information and guidance on what a social enterprise spin-out is, why you might go ahead with the process and what some of the challenges and pitfalls are.
- Examining the potential for individual service areas to embark on the creation of a spin-out. In particular addressing the fundamental questions of whether there is really a market for the services the organisation provides, whether the

social or environmental aims of the organisation will be best met through market-led activity and, crucially, whether creating a social enterprise organisation is financially viable.

- Training on the development of leadership and management, in particular focusing on supporting the emerging leaders of spin-out social enterprises to develop their vision and take it to reality; in short, the development of public sector social entrepreneurs.
- Supporting organisations to undertake the culture shift necessary for staff to move to a more 'business-oriented' approach, while maintaining a clear focus on the social aims of the organisation.
- Understanding and managing the relationships with stakeholders throughout the creation of the organisation or 'taking people with you'.
- The creation of well-researched, feasible business plans and financial models.
- Guidance on handling negotiations with relevant council authorities and departments.
- Asset transfer and the risks and opportunities associated with taking on a physical asset.

SEL has developed bespoke packages of support for many of the councils we have worked with. For more information on these contact us on 020 7033 2604 or e-mail info@sel.org.uk.

What is a social enterprise?

Firstly it is important to establish what we mean by the term 'social enterprise' in a public sector context. Social enterprises are businesses. However, instead of making money for private shareholders they make profits in order to address social or environmental needs. Because they exist for public benefit, social enterprises are often well placed to deliver public services.

Establishing a social enterprise out of the public sector creates the chance to innovate, developing dynamic new ways of delivering services and of working with colleagues, residents and businesses to provide a better service.

Social enterprises are businesses created to tackle social or environmental need. Unlike typical businesses, which sell products or services for purely financial gain, social enterprises make profits that are reinvested into the organisation in order to deepen its social impact or that are distributed outside the organisation to meet social or environmental aims.

The term social enterprise includes several different legal and organisational forms, including co-operatives, credit unions, leisure trusts, mutuals, community interest companies (CICs), development trusts and social firms.

The key thing to remember is that social enterprise is a concept, not an entity – you don't register as a 'social

enterprise', instead you take whichever formal legal structure is best suited to you delivering your social enterprise aims.

Social enterprise isn't right for everyone. But the evidence of over 62,000 successful social enterprises in the UK demonstrates that the values of fairness, community investment, local control and a social or environmental mission can make for more efficient services, better user experiences and happier staff.



Emerging themes from the Transitions programme

The importance of leadership

A clear distinction can be drawn between the emerging spin-outs that show early signs of success and those that don't by the quality of their leadership. It is a striking trend, far more distinctive than any other potential barrier to establishing a social enterprise spin-out, including, in our experience, the challenges of staff transfer, asset transfer or service development. If an organisation is well led then the head wind of challenges is likely to be safely steered.

Recommendation

To create effective spin-outs, real effort should go into finding and empowering aspiring public sector social entrepreneurs. In practice this means giving people the space to take time out of their working days to learn about the realities of forming and leading a business, to network with one another and to access training and mentoring.

The challenge of culture change

It is clear that effecting culture change across the organisation is the most significant challenge for emerging spin-out leaders. It is not necessarily harder or easier to work in a social enterprise as opposed to a public sector department, but it is certainly different. For people who have, for example, spent a career teaching young people excluded from mainstream education in short-stay schools, the prospect of marketing and selling the service to a broader base of customers or of developing the organisation to trade in other areas of service delivery can be an anathema. Giving staff the space, time and

training to support the change in culture necessary to support the creation of an effective spin-out organisation is vital in enabling it to achieve success.

Recommendation

We have found that supporting emerging spin-out leaders to communicate with, involve and empower colleagues from an early stage is vital to the success of the organisation. In particular, attention should be paid to language, sensitively introducing the language of business, in line with the aims and objectives of the organisation.

The enthusiasm of front-line staff

The typical view, propounded through much of the media, is that the enthusiasm to create public service spin-outs is centrally driven – a government-led approach that is not well supported among public sector workers themselves. However, the experience of SEL's work in the area is quite the opposite. The vast majority of consultancy undertaken by SEL has been delivered to public sector workers who have directly approached us, keen to explore the potential for establishing a social enterprise for themselves.

Recommendation

The view that social enterprises are being created against the will of staff is too simplistic. Typically the challenge is more for groups of staff to convince each other, rather than for the centre of a council to convince its employees. A more sophisticated understanding needs to be promoted.

Confusion over legal models

There is some confusion over social enterprise business models and legal structures. In our view, this confusion is caused by publicity that centres on the idea that spin-outs should be mutuals. Early discussions with aspiring spin-outs often begin with “we are interested in establishing a mutual.” However, the evidence emerging from our work shows that most spin-out organisations have concluded by advocating a community interest company limited by guarantee structure, which often includes an element of mutualism. There have also been highly successful mutual led spin-outs, as well as hybrid organisations.

Recommendation

Language around the creation of public sector social enterprise models should be broadened in order to avoid confusion. SEL’s approach is to support the emerging organisation by understanding its aims and objectives prior to recommending a legal or organisational structure. In short, the legal structure should fit the business, not the other way around.

Fears around staff transfer

Evidence shows a real lack of knowledge among staff around the legal implications associated with staff transfer. As such, the issue is often avoided or regarded as such a significant obstacle that the plans to develop the spin-out are not taken forward. The challenges associated with it typically fall into two distinct themes:

1. The difficulties associated with persuading staff to transfer out of the relative security of the public sector into the independent sector and the impact

that has on their terms and conditions of employment and more specifically their pensions – which are not covered under TUPE legislation.

2. The cost for a newly established organisation (or indeed any organisation) of meeting the costs of taking on staff under TUPE conditions.

Recommendation

Staff should have early, openly available access to independent legal advice on the implications of employment transfer. The issues are complex and wide ranging, but they do not need to prevent the development of the organisation, providing accurate, timely legal advice is available.

The lack of time available to properly plan the development of the organisation

Usually the creation of an independent organisation emerging from the public sector is conducted by an individual or group of staff who continue to pursue a day job while the organisation is created. This means that in order to do the work necessary to get the organisation off the ground, people need to squeeze out periods of time at weekends, lunchtimes and evenings. Therefore the profile of those able to commit to leading a spin-out is becoming restricted to those without pressing family commitments and with sufficient free time to devote to the change.

Recommendation

It is vital that staff seeking to establish a public sector spin-out are given adequate time to be able to pursue the idea. This means early communication with senior managers in order to agree a work plan to take the spin-out forward or an agreed

number of days allocated to the proposal. Without this, spin-outs will only ever be led by those who happen to have the free time to devote to the task.

The lack of infrastructure support available to emerging spin-out organisations

Unsurprisingly, very few emerging public sector social entrepreneurs have the blend of business, finance and legal skills and experience that is necessary to personally control every aspect of the organisation's development. This need not scupper the development process, but in a situation where the emerging organisation is being asked to develop without any formal external business support, it can make life very difficult, leading to unequal conversations between, for example, the legal team of the council and group of aspiring social entrepreneurs.

Recommendation

Attention is paid to providing advice and guidance to aspiring spin-out leaders in areas including leadership development, legal advice, financial advice, business planning, market testing and other areas of business development as appropriate.

These learning points and recommendations have emerged from work undertaken with staff from over 50 local authorities, quangos and central government bodies. It is clear that they represent the most pressing challenges to the successful establishment of a greater number of spin-out bodies and effectively addressing them is the focus of the work of SEL and the Transition Institute, established by SEL, NESTA and other key partners.

To engage with SEL's Transitions work e-mail info@sel.org.uk or call 020 7033 2604. To engage with the work of the Transition Institute visit www.transitioninstitute.org.uk.



Why establishing a social enterprise to run a public service can be a good idea

Social enterprise can provide the platform to enable public sector workers to deliver stronger, more efficient services, taking a greater control over the design and delivery of the service and achieving outstanding results. Here are the six reasons identified through the Transitions programme as to why it could work for you:

Control

It is a common complaint by those delivering public services that despite the fact that they are at the front line of delivery, they feel powerless, unable to respond and stifled by bureaucratic and centrally created barriers.

In response, it is often argued that those best placed to plan a public service are those who spend their careers delivering them – the people on the front line. Establishing a social enterprise offers you the platform to be able to make this aspiration a reality.

The ability to set your own terms and conditions

The challenges created by staff transfer are documented elsewhere in this document but, these aside, as a social enterprise, you have the opportunity to review staff terms and conditions as a tool for the new entity. Furthermore, if your body adopts a democratic governance structure (for example, if it becomes an employee-owned co-operative), then staff will be able to input into their terms and conditions

as you work together to establish the new, sustainable business model.

The ability to win contracts beyond the public sector and beyond borough boundaries

Borough boundaries exist to reflect patterns of communities and to facilitate effective local government and administration. People do not, of course, live all their lives, form relationships, work or take their leisure time within one given local authority area. By running a social enterprise, you will have the freedom to design your service to meet the needs of your service users, regardless of which borough your activities take place in.

Taking a proactive response to budget cuts

The social enterprise model allows staff and communities to take a proactive response to cuts, maintain employment, look for contracting opportunities elsewhere and remove often expensive layers of bureaucracy.

The opportunity to involve service users in the design and delivery of your service

Many local authorities are outstanding at consulting with and encouraging the participation of other members of the community in planning and delivering services. But if you decide to establish a social enterprise, then you will be able to do even more, involving members of the community in the governance or even ownership of the organisation.



The opportunity to be part of an exciting, fast growing business movement

Social enterprise is the most exciting and fastest growing business movement. In the UK, there are already over 62,000 of them and the number is growing constantly. Public enthusiasm for businesses that meet a triple bottom line of people, planet and profit is growing – the market for ethical products and services is bigger than ever before. Coupled with a heightened awareness of what can be achieved when communities work in partnership and an acknowledged need to reform the way public services are delivered, it is clear that the time for social enterprise has arrived.



Being an outstanding social enterprise leader

Earlier we identified that effective leadership often creates the dividing line between successful and unsuccessful emerging spin-outs. Through Transitions we've identified five personal attributes, which the most successful social entrepreneurs often have.

Vision

A person about to start a successful business almost always has a strong, clear vision for how he or she would like the organisation to look and the positive social and/or environmental impact that it would have. It's what keeps you focused, it's what forms the basis of your eventual business plan and it's what gives you the words to persuade your colleagues that your idea is a good one.

Energy

Establishing a new business is hard work and requires physical, mental and emotional energy. You don't necessarily have to work all hours of the day and night, but you will need to be dogged to keep going against what may be slow progress within the administration, initial scepticism from colleagues and the users of your service. There are often difficult challenges in terms of establishing finance, funding, premises, building a team and bringing your vision to reality.

Entrepreneurial spirit

One of the greatest strengths of a social enterprise is the flexibility and lightness of the organisation as compared to a public department, which usually exists as part of a larger and often more bureaucratic body.

Leadership in this environment presents both opportunities and challenges. Looking out for opportunities, recognising the commercial potential within the organisation and constantly looking for new and more innovative ways in which to achieve a deeper and longer lasting social or environmental impact are the characteristics of entrepreneurial behaviour.

Showing entrepreneurial spirit in relation to your organisation is about having the drive to put your ideas into action. Entrepreneurial spirit and energy often go hand in hand – it's a restless desire to see your organisation achieve more.

Business sense

It's an obvious point, but managing a business, trading on the market and competing for contracts is a very different process to managing a public department and requires a different leadership mindset. It's not necessarily harder or easier, but it does require specific skills.

As with running a public department, establishing a successful business requires you to have (or have access to) strong budgeting and accounting

skills and the ability to manage complex workloads, delivery targets and potentially a sizeable workforce. But as a business leader you will be responsible for reporting to your trustees or directors as well as to commissioners within the local authority. You will carry direct responsibility for budget allocation within the organisation, financial management and accounting, human resources, marketing, project management – pretty much everything the organisation does. It's a great freedom in comparison to being part of a larger organisation, but creates challenges.

Focus

While the parameters of a public department are typically predefined, a social enterprise has no limits in terms of what it can deliver. If you are working in an area of real need, then it can be tempting to try and do 'everything' – what can start out as a wonderful sense of freedom can quickly lead you to become overwhelmed at the enormity of the task you have set yourself.

To manage this, the most successful social entrepreneurs have a clear focus on what they can deliver and an equally clear perspective on what they can't. This is linked to 'business sense' and requires a firm grasp on the resources of the organisation. In retaining focus, it's also important to have a good and up-to-date business plan, which gives you the platform to plan exciting new developments in a managed and

sustainable way. Perspective and focus is important in channelling energy and ambition.

If some of the skills and attributes listed above feel quite alien to you then don't worry, many of the best social entrepreneurs did not start out as business people, but came to social enterprise as a way of addressing need. Speak to SEL for more information on any of the points listed above. Social enterprise is an inclusive, collegiate movement.



Next steps: how to get started

Transitions outlines a seven-step process you will need to go through to get started. The steps aren't necessarily taken in the order outlined here, but you will certainly have to go through each of them at some stage in order to create a successful spin-out organisation.

Outline your vision

What will your new organisation achieve? This is as simple as taking a blank sheet of paper and letting the creative juices flow – use all your professional experience to come up with the perfect service.

Engage your stakeholders

It is not worth taking your idea any further until you have established that the key people involved share your vision. These include colleagues, service users or members of the community.

Decide who's in control

As well as agreeing the leadership and management of the organisation, you'll need to agree the legal structure, the way the organisation is governed, how you include the views of the community you serve and how you manage your relationship with the local authority.

Get the business plan in place

This is possibly the most crucial stage of developing your organisation, where you turn your vision into reality. It will involve working through what resources are required, how staff will be transferred from the local authority to the social enterprise, how your trading practice will

work, what its finances will look like, how you will administer the company and how you will find and use your premises.

Get the numbers right

As part of the business planning process, you need to work out whether the numbers add up. Establishing whether your business is financially viable is a complicated process, but in essence you must focus on the need for the contracts you deliver to make the organisation enough money for you to meet all your organisational costs profitably.

Negotiate with your local authority

You've established who's in charge, developed your business plan and got your finance together – now you enter formal negotiations with your local authority. In negotiating the contract, it is important to obtain independent legal advice. You will need to demonstrate to your local authority that your business is well led, financially sound and that it will deliver to an outstanding quality.

Get cracking

Now the exciting bit – once you have the contract and are confident that the business works, you get started. Of course running a business creates daily problems and challenges and running your social enterprise will sometimes feel like a thankless task, we don't underestimate this. But if you maintain a strong support network and remain focused on your vision, then you will be well placed to succeed.



Conclusion

Since the launch of Transitions, public services have started to make significant changes. This paper outlines the key outcomes from the programme, and summarises what it takes to create a successful public sector spin-out. SEL is leading the way in supporting the development of a new wave of social enterprise run public services. **To engage with us e-mail info@sel.org.uk, call 020 7033 2604 or visit www.sel.org.uk. We look forward to working with you.**

Glossary of terms

Big Society

A policy created by the Conservative Party and supported by the Coalition Government designed to put more power and opportunity into people's hands. This will take the form of devolving power to local government, encouraging people to take an active role in their communities, and supporting co-operatives, mutuals, charities and social enterprises.

Business Link

A free government-run business advice service of action-focused information for small and medium-sized businesses.

Business plan

A written document that describes a business, its objectives, its strategies, the market it is in and its financial forecasts. It has many functions, from securing external funding to measuring success within your business.

Civil society

A public space between the state, the market and the ordinary household, in which people can debate and tackle action. It includes:

- charities
- neighbourhood self-help schemes
- international bodies like the UN or the Red Cross
- religious-based pressure-groups
- human rights campaigns
- non-governmental organisations
- improving health, education and living-standards.

Commissioning

The process of ensuring that statutory services provided effectively meet the needs of the population.

Community interest company (CIC)

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. This is achieved by a 'community interest test' and 'asset lock', which ensure that the CIC is established for community purposes and the assets and profits are dedicated to these purposes.

Community

A social group of any size whose members reside in a specific locality, share a government and often have a common cultural and historical heritage or a social, religious, occupational or other group sharing common characteristics or interests. It is perceived or perceives itself as distinct in some respect from the larger society within which it exists.

The Compact

An agreement between two or more parties that if it contains the elements of a valid legal agreement is enforceable by law or by binding arbitration.

Contract

An agreement between two or more parties that if it contains the elements of a valid legal agreement is enforceable by law or by binding arbitration.

Co-operative

An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise.

Department of Health

The central government department responsible for improving the health and well-being of people in England.

Employee ownership

Companies who are substantially or wholly owned by the people who work for them, there are no outside interests with a controlling stake in the business.

European Union

An economic and political union of 27 member countries, located in Europe, committed to regional integration.

Local authority

An administrative unit of local government tasked with overseeing the activities of a designated area (often called councils). Councils provide a wide range of services, such including waste collection, highway maintenance, education services, social services and green space maintenance.

Procurement

The acquisition of appropriate goods and/or services at the best possible total cost of ownership to meet the needs of the purchaser in terms of quality and quantity, time and location. Public sector bodies often refer to the procurement processes as being open and fair to competition.

Right to request

A mechanism to allow NHS staff to ask for the right to establish and run an independent organisation to provide a service that is commissioned by the PCT or NHS department to deliver the service as an external contractor.

Social enterprise

"A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners." (DTI, 2002).

Social entrepreneur

Someone who works in an entrepreneurial manner, but for public or social benefit, rather than to make money. Social entrepreneurs may work in ethical businesses, governmental or public bodies or the voluntary and community sector.

Social firm

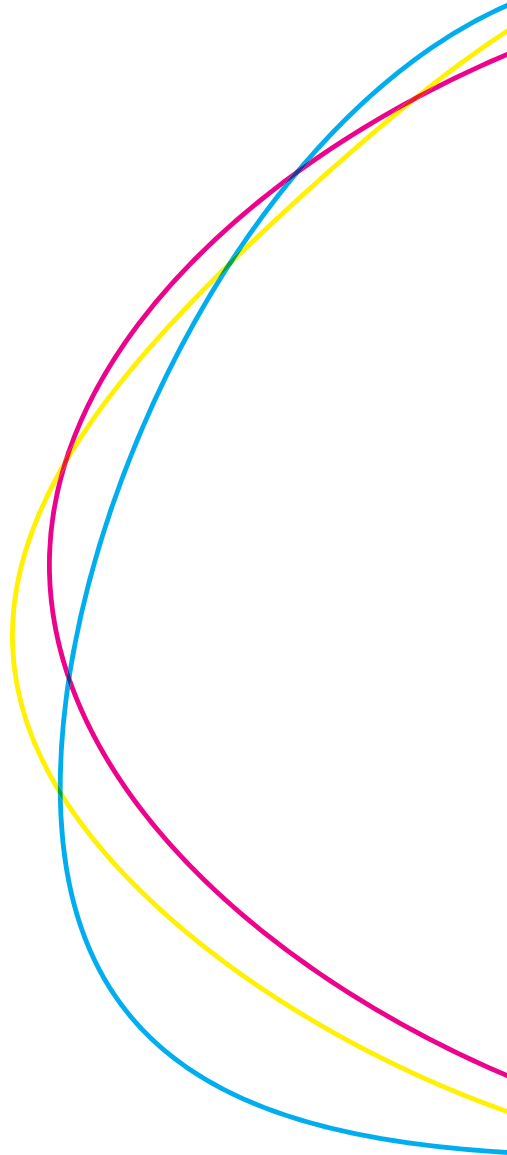
A small business created to provide integrated employment and training to people with a disability or other disadvantage in the labour market. It is a business that uses the market-oriented production of goods and services to pursue its social mission.

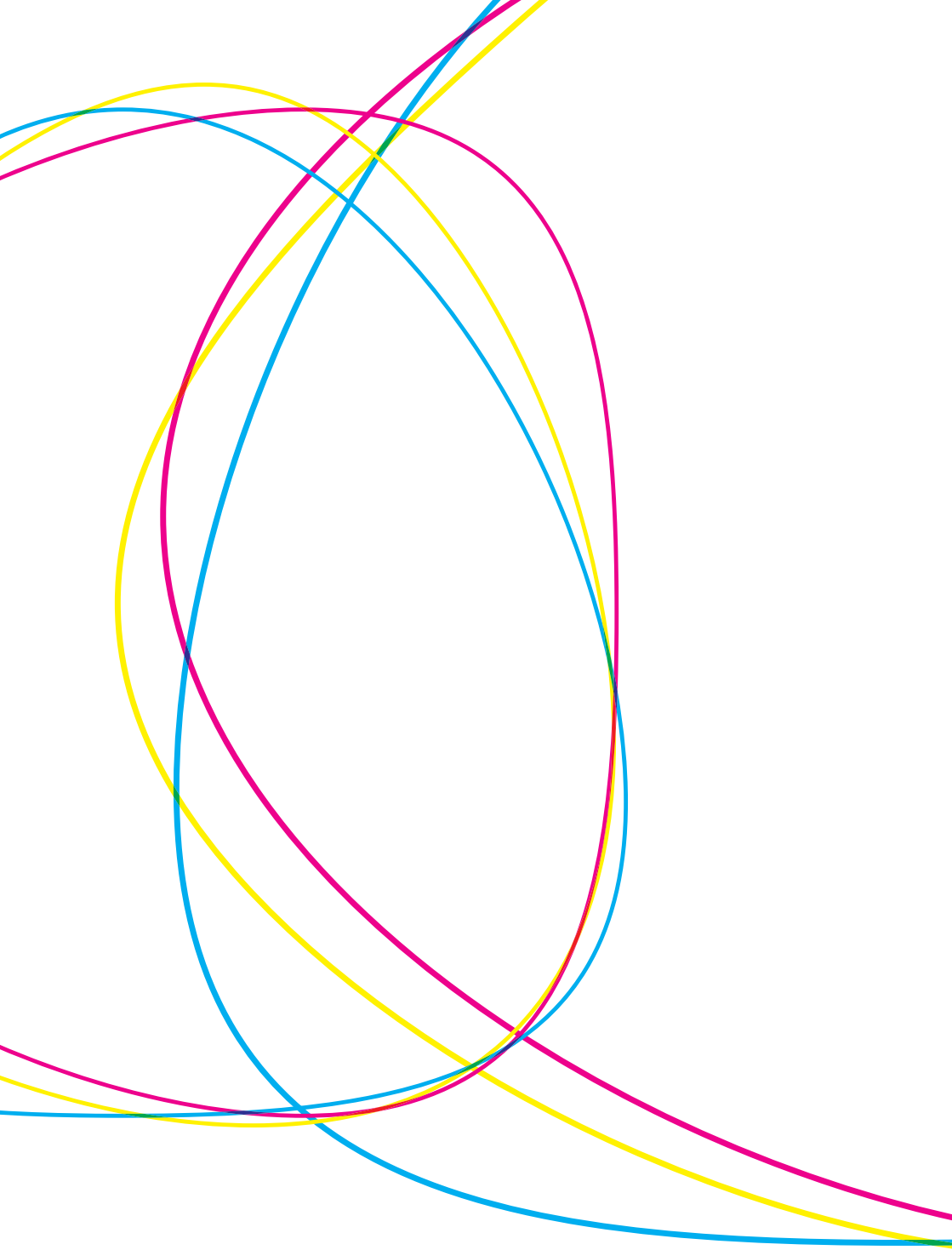
Civil Society

Non-governmental organisations that are value driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, co-operatives and mutuals. It is worth noting that although the term is no longer recognised by government (it has been largely replaced by civil society), it is still in frequent use within the social enterprise movement.

TUPE

Transfer of Undertakings (Protection of Employment) 2006 (TUPE). A piece of government legislation that protects employees' terms and conditions of employment when a business is transferred from one owner to another. Employees of the previous owner when the business changes hands automatically become employees of the new employer on the same or improved terms and conditions.







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