



Employee-led Mutuals (Spin-outs) To deliver Council Services By Developing Sustainable Social Enterprises

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Spinning Out Suitable Council Departments To Become Sustainable Social Enterprises

Overview

Many local authorities are actively considering how to deliver existing services in new, innovative ways. There are demands to have a similar, or greater, level of service maintained from a lower cost base and not controlled directly by the local authority.

One model is to spin-out the service to become a stand alone company that operates for the social good – a social enterprise.

When the externalisation of services is executed effectively, with full consultation and on an appropriate model basis, social enterprises have been shown to deliver excellent results, more reflective of the needs of society. Furthermore as they are responsible for their own budgets, they often deliver at a lower cost than the equivalent council operated department.

What is a social enterprise?

A social enterprise can be identified by:

- Being an autonomous business that operates for the social and/or environmental good. It makes a profit and those profits are re-invested in the business to help ensure it is a sustainable organisation with the ability to grow.
- Having its assets locked so that they can only be used for the benefit of the community and as a consequence are not vulnerable to any private sector buy-out.
- Being accountable. The policies of social enterprises are shaped by their staff and the wider stakeholder community. They are not designed to deliver profits back to the local authority or to make individual directors rich. Unlike a private company, they encourage co-operation and participation; making them democratic.
- Having an appropriate legal structure: the terms social enterprise and mutuals (a term which the government is currently promoting) are not in themselves legal structures. Common legal structures include companies limited by guarantee, community interest companies and limited liability partnerships.

Above all, social enterprises are trading bodies that have the autonomy to have a number of different clients and the ability to diversify their range of services.

A key aspect of the service spin-out by local authorities is to recognise the cultural shift needed. This is not just a structural adjustment, this is a fundamental transformation into an enterprising venture. The managers and board of directors are now delivering a service in a new environment that necessitates sales and marketing; it requires different forms of financial planning, partnership and consortia working. As well as having the same statutory obligations it requires different quality controls than those to which they were formerly accustomed.

Why engage with Social Enterprise Solutions?

The team at Lancashire-based Social Enterprise Solutions have an excellent track record in assisting local authorities and health bodies in the North West with the spin-out process.

Social Enterprise Solutions ensures that key criteria are met by the newly emerging social enterprise, independent from the local authority and enjoying full staff engagement to ensure effective and efficient service delivery.

We undertake the whole process, ensuring that all the key stages are reached. This is an empowering development for the staff that, ultimately, will have to stand on their own two feet when the social enterprise is up and running.

Social Enterprise Solutions has achieved the coveted Social Enterprise Mark status which identifies those organisation which meet defined criteria and is committed to social and environmental objectives.

Other accolades include being named in the top 25 of the RBS Top 100 Report of social enterprises in the UK. Current clients include Blackpool Council for whom we deliver a major Local Enterprise Growth Initiative programme, Knowsley Metropolitan Borough Council Social Enterprise Support and the Third Sector Partnership, 3SC, to deliver the Future Jobs Fund.

Social Enterprise Solutions Proposal

Here, we set out how Social Enterprise Solutions will undertake the process to spin-out a department into a social enterprise, along with guide prices. Clearly every project will be different and there may be some stages that need additional experts to cover issues like TUPE.

We propose a three stage model typically spread over 12 months:

1. 1 day @ £450/day

An initial assessment of a department undertaken by two specialists from Social Enterprise Solutions. This process would identify the suitability of the department to spin out, identify any potential issues and roadmap the journey to social enterprise status. A report would be prepared and presented.

2. 14 days @ £450/day

Detailed analysis of the potential new social enterprise, employee engagement, business and financial planning, stakeholder engagement, sales and marketing planning, management structures and legal structure formation¹.

3. 6 days @ £450/day

Typically, this takes the form of business mentoring support for the new social enterprise as it begins trading. It includes assisting with issues surrounding the first contract(s) with a view to ensuring sustainability.

We anticipate that the current departmental management and staff will conduct much of the information gathering and analysis by following the mentoring and guidance offered by the Social Enterprise Solutions team.

Further support can be arranged as required.

In support of any proposal we would anticipate producing a Memorandum of Understanding between the Council and Social Enterprise

Solutions that would include StageGate Criteria that must be passed in order to transit from Stage 1 to 2 to 3. This would ensure there is no contractual obligation on the part of the Council beyond the current Stage. Progress will be on the basis that each stage clearly demonstrates the potential for success in the new venture. The initial contract would be for Stage 1 only.

Scope of the Work

Depending on requirements, the topics below are interwoven throughout the three stage model above.

- Feasibility study
- Baseline assessment
- Staff consultation
- Negotiate with unions involved
- Work with HR on TUPE and pension considerations
- Identify most suitable legal structure
- Management advice and support
- Business planning
- Financial forecasting
- Identifying potential customers
- Brand identity and marketing

Guiding Principles for a Typical Brief

The following eight points will be explored during a typical Stage 1 Initial Assessment but will be revisited as required during the Stage 2 and 3 development. Each spinout has unique needs and each justifies a tailored service rather than trying to make a 'one size fits all' offering. The findings from the Initial Assessment will be distilled into an outline report that will inform the decision to proceed to Stage 2 of the development activity. The report will include assessment against the StageGate criteria.

¹ For more complex spin-outs it may be necessary to introduce specialist expertise in, for example: public procurement, TUPE, legal formation of companies

1. Exactly what is to be achieved?

- Why do you want this service to be delivered by a social enterprise?
- What will be the function and scope of the new social enterprise?
- What is the business going to do and when? i.e. the products now and planned?
- What market research has been done?
- What competitor research has been done?
- Recognising direct and indirect competition?

2 What is the timescale?

- When will the new social enterprise begin trading?
- Are there budgetary or employment issues which require the new social enterprise to start, for example at the beginning of the next financial year?

3 How many service users/clients will be affected?

4 How many staff will be affected?

- Will there be job losses?
- Is the intention to transfer Council staff to the new social enterprise by TUPE?

5 What is the size of the budget?

- How much was spent on the activity during the last financial year?
- What is the minimum income that needs to be achieved to cover costs and to trade?

- How is income and expenditure spread over the year (cash flow)?
- How much will be offered to the new social enterprise?

6 Are there statutory constraints?

- Are there specific legal considerations or quality standards which affect service delivery?
- Would there be any difficulty with European procurement regulations?

7 What are the main problems?

- Have there been problems in service delivery, value for money, staffing etc.?
- Is there clear knowledge and understanding of the risk involved and the degree of control needed?

8 Will the Council provide capacity to support the new social enterprise in its development phase?

- Will a Council officer be available to take a place on the Board?
- Will a nominated officer provide support as the social enterprise develops?

The Business Plan

Central to the development of the spin-out is the formation of a credible Business Plan. The key points that the plan should convey are to be found in the eight Guiding Principles above that will be further analysed at Stage 2 by building on the information gleaned at Stage 1.



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