



# The Big Society, mutuals & the re-shaping of public service delivery

## A briefing paper

### Summary

The term 'Big Society' was first coined when David Cameron and Conservative Party were still in opposition. It has now become a meta principle of the new Coalition Government.

The Big Society has four main elements

- Giving communities more powers;
- Encouraging people to take an active role in their communities;
- Transferring power from central to local government;
- Supporting co-operatives, mutuals, charities and social enterprises to become more engaged in the delivery of public service

The combination of reducing budget allocations and active policy support for the creation and development of mutuals makes it inevitable that local authorities and other public bodies will be asked to consider the options for switching public service delivery from 'in-house' services to autonomous mutual organisations.

There are mutuals at work – small and large - throughout the UK's social fabric. There are 4,800 independent co-operatives in the UK owned by more than 11 million members. Within the North East Region there are successful mutuals and social enterprises operating across a range of different sectors - including some which have been recognised with national social enterprise awards.

The governance principles of mutuals, and the manner in which they relate to stakeholders, make them a vehicle particularly well suited to public service delivery. In choosing an appropriate governance model, the key issues to be considered are:

- ✓ who will be the members and what structure is most likely to enable their democratic and economic participation?
- ✓ what will be the sources of capital for the enterprise and which model is most likely to support the raising of the capital required?

The paper concludes by describing five Action Steps to be followed when considering the mutualisation for public services, and lists reference websites for further advice.

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## The Big Society

'The Big Society' was first spoken of by David Cameron in November 2009 as Leader of the Opposition.<sup>i</sup> Now in Government, **David Cameron and colleagues have gone on to promote 'Big Society' as a meta principle of public policy.**

Big Society policies will transfer powers to communities and encourage people to take more active roles in their communities. The Government has declared its intention to support the creation and development co-operatives, mutuals, charities and social enterprises, including spin-off's and management buy-outs from the public sector.

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- Support co-ops, mutuals, charities and social enterprises to become more engaged in the delivery of public service

The Government has committed to give public sector workers a new right to form employee-owned co-operatives and bid to take over the services they deliver. This is aimed at empowering public sector workers to deliver better services and control their organisations.

During the summer, the Prime Minister announced the country's first Big Society Communities - Sutton, Windsor and Maidenhead, Eden Valley (Cumbria) and Liverpool.<sup>ii</sup> Communities in these four areas will receive help to overcome bureaucratic barriers and to take greater responsibility for their locality.

The Communities Secretary, Eric Pickles added that the Government would 'trust communities to know what they need'. The chosen four communities had already shown an interest in budgeting at street level, energy generation, piloting open source planning, taking on community assets and encouraging volunteering.

In August 2010, the Minister for the Cabinet Office, Francis Maude announced the first wave of Mutual Pathfinders.<sup>iii</sup> These pilot schemes permit entrepren-

erial public sector staff to take control of service delivery. The chosen Pathfinders will be mentored by a range of organisations including the John Lewis Partnership, Greenwich Leisure and the North East's Sunderland Homecare Associates - *see below for list of Pathfinders and CASA case study.*

In the Comprehensive Spending Review (October 2010), the Big Society was closely allied with reform of the public sector. The Government believes in funding essential services, but does not see that the public sector need be the sole provider of services. This may stifle innovation and competition.

The Government is exploring the role of independent providers, including the community sector, and social and private enterprises, to share in public service delivery. The Review suggested adult social care, early years support, youth services and community health services as potential areas for reform.

Funds from dormant bank accounts will be used to establish a Big Society Bank to supply finance to mutuals and non-governmental bodies wishing to tender to deliver public services. In addition, the Government has promised transition and capacity building funds will be available for voluntary and community sector organisations.

The Government's plans for the reform of public service delivery of are still in development and there will be further consultations with the public sector staff, individuals and communities on how to deliver better public services. A White Paper will be published early in 2011.

The proposed devolution of power to communities and less ring-fenced funding for local authorities will give opportunities for voluntary groups and social enterprises, as is suggested in the Cabinet Office paper, *Building a Stronger Civil Society.*<sup>iv</sup>

**The combination of reducing budget allocations and active policy support for the creation and development of mutuals makes it inevitable that local authorities and other public bodies will be asked to consider the options for switching public service delivery from 'in-house' services to autonomous mutual organisations.**

## Examples of Mutuals at Work

**There are mutuals at work – small and large - throughout the UK's social fabric.**

There are 4,800 independent co-operatives in the UK owned by more than 11 million members.<sup>v</sup> Some of the better known examples nationally include the Co-op Group (a consumer co-operative embracing banking, insurance, farming, retail, pharmacies, travel and funeral care), and the John Lewis Partnership (a worker co-operative with more than 70,000 partners) and the Nationwide Building Society.

**Within the North East Region we have successful mutuals and social enterprises operating at different scales and across a range of different sectors.**

Social Enterprise Strategies is itself a co-operative. Established for more than 25 years, it serves the City of Sunderland and the wider North East Region, supporting and developing social and community businesses, and promoting the growth of self-employment. SES has an annual turnover of more than £1 million and employs 22 staff.

The following case studies give an insight into the diversity of scale and business activity of some of the mutuals and member controlled social enterprises in the North East.



Newcastle-based **Eaga** is one of the UK's leading providers of energy efficiency solutions, and the leading deliverer of UK governments' fuel poverty programmes. Last year it had a turnover of £3/4 billion.

Established as an employee owned social enterprise it has more recently floated on the Stock Exchange. However, 50% of its share capital is still owned by its 4,500 employees, together with stake in the company held by the Eaga Partnership Trust which is Eaga's largest single shareholder.



**Care & Share Associates (CASA)** is the UK's leading employee-owned homecare social enterprise. Its founder organisation, Sunderland Home Care Associates was Social Enterprise of the Year in 2006.

There are now CASA franchise units operating in Calderdale, North Tyneside, Newcastle and Manchester. Together they deliver more than 7000 hours of home care every week.

CASA is recognised as a pioneer of health/homecare social enterprise franchising and replication.



Formed in 2003, **North Country Leisure** is a charitable leisure trust, operating sports and leisure centres in Northumberland and Copeland which were divested from their respective parent local authorities. It operates through local boards in each locality and employs more than 180 staff.



Team Fostering is a social enterprise (company limited by guarantee) which recruits, assesses, trains and supports professional foster carers from the Borders of Scotland to South Yorkshire and in Nottinghamshire.

The agency works closely with Local Authorities, regionally and nationally. Its mission is to achieve the best outcomes for children and the best value for Local Authorities.

There is no distribution of profit to shareholders. All income is used to maintain and support placements, and to develop the service – thus ultimately improving outcomes for the children and young people.



**Community Campus '87** is a community based social enterprise established people to address the emerging crisis of youth homelessness in Teesside.

Community Campus '87 has grown and developed to offer a broader range of services including:

- Housing, support and resettlement services
- Personal development, learning and training opportunities
- Construction training and building services

Community Campus '87 is a value driven organisation, committed to accounting to its membership and the local community for social, economic and environmental impact.

Community Campus '87 is registered under the Industrial and Provident Societies Act.

## North Tynies

**North Tynies** is a charitable company limited by guarantee operating a range of childcare and out of school activities for children in rural Northumberland – Bellingham and surrounding area.

Begun as self-help group by local parents, this community mutual now sustains more than 20 local part-time jobs and enables local families to be more economically active by providing viable local out-of-school childcare. North Tynies has also become a valued partner for other statutory and local authority provision – eg Sure Start and Social Services by offering a local delivery point for services in a sparsely populated part of Northumberland.



**Shared Interest** is a social finance co-operative which had been active in the North East for 20 years. It works in 36 countries lending to fair-trade importers and farmers/handicraft makers in the developing world. Boasting a balance of more than £25million and some 8,500 investor members, Shared Interest is leading provider of finance to the Fair Trade movement, including local importers like Traidcraft and Tropical Wholefoods (Fulwell Mill).

Registered as an Industrial & Provident Society Shared Interest has received national recognition as an innovator in the field of social finance, including a Queens Award for Sustainable Enterprise in 2009.



**Community Renewable Energy (CoRE)** is a social enterprise working to support communities to develop renewable energy projects which provide them with an income and a sustainable, secure energy supply.

It has supported groups from Berwick to Teesside to examine a range of renewable energy solutions including wind, solar panels, anaerobic digestors, bio-mass, and micro-hydro.

CoRE takes a stake in successful enterprises companies created as a means of recouping development costs and to fund future community renewable energy projects.

There are other community-owned wind farms elsewhere in the North of England and in Scotland.



The following **four examples from outside the Region** offer further insight into successful public service delivery by mutuals:



**Ealing Community Transport (ECT)** was originally established in 1979 to provide transport for older and disabled people in Ealing.

Over the years, it has developed into an award winning social enterprise winning and Community Transport organisation, delivering local community transport solutions from 4 depots across England. ECT employs 150 staff.

Services include mini-bus transport, home-to-school, services, a 'Plusbus' service for those who find it difficult to access regular transport services and driver training.



**Cylch** is the community recycling network for Wales. Cylch operates across 20 local authority areas supporting both local employment and training and volunteering opportunities. In 2008/09 Cylch members diverted more than 30,000 tonnes of domestic waste from landfill.

Cylch promotes sustainable enterprise solutions which connect communities with the green agenda.



**Bulky Bob's** was established in 2000 as an offshoot of the Furniture Resource Centre in Liverpool. It offers local authorities an innovative collection service for bulky household waste, and it maximises the re-use and recycling of the furniture and white goods collected, helping low income families.

Operating across the North West Bulky Bob's has in the past 10 years made almost ½ million collections from householders.

Bulky Bob's re-uses or recycles more than 70% of the items collected. More than 275,000 items of furniture and white goods have been rescued from landfill.



The **Swindon Music Co-operative Ltd** was formed in 1998 following the closure of the education authority's instrumental teaching service. The co-operative is a membership body, which provides marketing and administration services to self-employed music teachers.

The number of teachers working through the co-operative has grown from 22 in 1998 to more than 50. The company is a democratically run organisation and is owned and managed by its teacher-members.

#### **The Government's 12 Pathfinder Mutuals**

- An awarding body to be set by a consortium of FE colleges
- The London Partnership - a 'reducing multiple disadvantage' Community Interest Company (CIC) from a group of Department of Health, local authority, Primary Care Trust and NHS staff
- The Department of Health's London and SE Learning Disability Team forming a regional CIC
- Hammersmith and Fulham Children's Services
- North East Essex PCT
- A social enterprise for delivery of housing support services to vulnerable people in Mansfield
- The Lambeth Resource Centre supporting people with physical and sensory impairment
- NHS employees forming a social enterprise to provide services for homeless people in Leicester
- Teaching and administrative staff to set up a Trust to run Newton Rigg Agricultural College, Cumbria
- Borough of Kensington and Chelsea to examine different models of employee led youth support services
- Integration of Community Health and Adult Social Services in Swindon into a cooperative
- Westminster City Council working with employees towards creating an arms-length mutual organisation.

## Governance & Stakeholder Control

**The governance principles of mutuals, and the manner in which they relate to stakeholders, make them a vehicle particularly well suited to public service delivery**

The governing principles of mutuals owe their roots to Robert Owen and the Rochdale pioneers (1844). The International Co-operative Alliance<sup>vi</sup> recognises the following seven governance principles for mutuals:

- i. Voluntary and Open Membership
- ii. Democratic Member Control
- iii. Member Economic Participation
- iv. Autonomy and Independence
- v. Education, Training and Information
- vi. Co-operation among Co-operatives
- vii. Concern for Community

A co-operative's members may be a group of producers (as in a farmers' or artists' co-operative), employees (worker co-operative) or consumers (such as a friendly society or credit union, or a housing co-operative). In some instances individuals may choose to become members of a co-operative to support the wider common good – eg members of a community supporting the co-operative ownership of a village store or a community windfarm.

In the context of delivery of public services, it is the second, third and seventh principles which have particular relevance. The democratic control of a mutual lies with its members rather than with the providers of investment capital. Members also have the opportunity share in the economic return of a mutual (in the form of a members' dividend) and mutuals are established to operate for the benefit of an identified community of interest.

'*Re-inventing the Firm*' – a paper from the policy think-tank, Demos – argues how employee ownership can temper the pursuit of short-term financial return and contribute to stable corporate governance and sustainable enterprise.<sup>vii</sup>

Traditionally in the UK, mutuals have been established under Industrial and Provident Societies Act – now regulated by the Financial Services Authority<sup>viii</sup>. An Industrial and Provident Society (IPS) permits withdrawable share capital from members,

but is currently limited to a maximum of £20,000 per member. However, mutuals are not restricted to the IPS legal form – and they exist as companies limited by shares, companies limited by guarantee and as Community Interest Companies (CICs)<sup>ix</sup>.

In choosing an appropriate governance model, the issues to be considered are:

- ✓ who will be the members and what structure is most likely to enable their democratic and economic participation?
- ✓ what will be the sources of capital for the enterprise and which model is most likely to support the raising of the capital required?

Not all social enterprises operate strictly as mutuals or co-operatives. Where is it advantageous to operate with charitable status (eg for funding or tax reasons), the form chosen may be a charitable company limited by guarantee (eg a leisure trust). The Trustees (directors) of the company will normally be elected by members, but they will be publicly accountable for the pursuit of the company's charitable objects, and members will not normally be eligible to share in any trading dividend.

### Co-operative Trust Schools

Co-operative principles have been used to guide the setting up of 25 UK schools.

The co-operative trust model offers a multi-stakeholder structure with learners, parents, staff and community organisations all being members. The organisation becomes accountable to its membership. The process requires the school to convert from a community into a charitable trust.

Based in Stockport, the Reddish Vale Technology College established in March 2008 was the UK's first Foundation School supported by a Co-operative Trust. The college has had positive results with its approximately 1,300 students aged 11 to 16 years old. The local membership helps to improve the school and the area.

The Coalition Government's statements on *Free Schools* do not include specific reference to mutual structures, but there may be scope for a further use of co-operative principles within education.

## Action Steps towards Successful Mutualisation of Public Services

### STEP 1

#### Identify services to be mutualised

- Is a transfer consistent with the sponsoring body's strategy?
- Is the delivery of services financially viable as an independent enterprise?
- What public procurement regimes will apply?
- What fixed assets/capital will be needed?

### STEP 2

#### Consult fully with staff

- Brief staff on the mutualisation agenda?
- Is the majority of staff willing to transfer to a mutual?
- Will the transfer be best as an employee 'buy-out' or can/should it involve partnership with an existing social enterprise?

### STEP 3

#### Identify sources of advice

- Who can help to advise on legal structures and business planning?
- Who can mentor staff?
- Does the project need to identify potential external directors/advisors?

### STEP 4

#### Compile a fully costed business plan

This should include:

- Allowance for transfer of staff under TUPE
- Skills gap analysis and action plan
- Financial plan and cash flow
- Model service contracts and terms
- Sensitivity analysis

### STEP 5

#### Sign contracts & begin transfer

- Obtain final consent from sponsoring body
- Secure contracts for service delivery
- Transfer staff to new entity (where applicable)
- Transfer legal responsibilities to new Board
- Begin trading

## Resources and Useful Websites

### Useful Websites

<b>ACAS</b> (TUPE Regulations)	<a href="http://www.acas.org.uk">www.acas.org.uk</a>
<b>Cabinet Office</b> (Civil Society Consultation)	<a href="http://www.cabinetoffice.gov.uk">www.cabinetoffice.gov.uk</a>
<b>Co-operatives UK</b>	<a href="http://www.uk.coop">www.uk.coop</a>
<b>Conservative Party</b> : Blue Blog – The Big Society	<a href="http://blog.conservatives.com/index.php/tag/big-society">http://blog.conservatives.com/index.php/tag/big-society</a>
<b>Financial Services Authority</b> (Industrial & Provident Societies)	<a href="http://www.fsa.gov.uk">www.fsa.gov.uk</a>
<b>The Big Society Network</b>	<a href="http://thebigsociety.co.uk">http://thebigsociety.co.uk</a>
<b>The CIC Regulator</b> (Community Interest Companies)	<a href="http://www.cicregulator.gov.uk">www.cicregulator.gov.uk</a>

### Endnotes

- i [www.conservatives.com/News/Speeches/2009/11/David\\_Cameron\\_The\\_Big\\_Society.aspx](http://www.conservatives.com/News/Speeches/2009/11/David_Cameron_The_Big_Society.aspx)
- ii [www.cabinetoffice.gov.uk/newsroom/news\\_releases/2010/100719-bigsociety.aspx](http://www.cabinetoffice.gov.uk/newsroom/news_releases/2010/100719-bigsociety.aspx)
- iii [www.cabinetoffice.gov.uk/newsroom/news\\_releases/2010/100812-pathfinder-mutuals.aspx](http://www.cabinetoffice.gov.uk/newsroom/news_releases/2010/100812-pathfinder-mutuals.aspx)
- iv [www.cabinetoffice.gov.uk/media/426261/building-stronger-civil-society.pdf](http://www.cabinetoffice.gov.uk/media/426261/building-stronger-civil-society.pdf)
- v Source – Co-operatives UK - <http://www.uk.coop/co-operatives>
- vi [www.ica.coop/coop/principles.html](http://www.ica.coop/coop/principles.html)
- vii Reinventing the Firm by William Davies, published by Demos 2009
- viii [www.fsa.gov.uk/pages/Doing/small\\_firms/MSR/pdf/coop\\_leaflet.pdf](http://www.fsa.gov.uk/pages/Doing/small_firms/MSR/pdf/coop_leaflet.pdf)
- ix [www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)