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Assessing the State of the Spin-out Sector in England

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Abstract

The provision of public services in England has received large amounts of policy attention over the last three decades. During this time there have been numerous and far-reaching reforms to the public sector in England, which have resulted in less direct provision of public services by Local Authorities and an increased 'marketisation' of the public sector (Hall et al., 2012b; Simmons, 2008). This marketisation of public services has been led by a desire to create more cost-efficient services that are also responsive to service user's needs. This reform is being driven by central government, which is using funding reforms and legislation to create greater public choice in the services that they use and the providers that they 'buy' these services from. In doing so, the government have encouraged the transfer of Local Authority staff into new provider and employee-owned mutual organisations (also known as 'spin-outs'). 'Public service mutuals' have been defined as '...organisations which have left the public sector i.e. spun out, but continue to deliver public services and in which employee control plays a significant role in their operation' (LeGrand and Mutuals Taskforce, 2012:9). Prior research exploring the spin-out sector has identified that policy initiatives such as 'Right to Request', 'Right to Provide' and 'Mutual Pathfinders' are having an impact and increasing the number of spin-outs from the public sector (Miller et al., 2012a; Cabinet Office, 2011). Spin-outs are seen as enabling services to be made more efficient and responsive to user's needs, whilst at the same time reducing public expenditure (Addicott, 2011; Hall et al., 2012b; Alcock et al., 2012). However, much of the prior research on spin-outs is sector focused (i.e. exploring health and social care spin-outs only), whilst the spin-out sector in England is heterogeneous and includes leisure trusts, housing associations and employment services. There remains a limited amount of academic research that approaches the sector as a whole and that seeks to uncover common barriers to spinning-out and the challenges facing new and existing spin-outs. This research undertook a review of secondary literature in order to identify potential spin-outs and then invited the 210 organisations identified to participate in an online survey (of which 59 have responded to date). The online survey explored organisational demographics, the policy process adopted in spinning-out, the perceptions of future challenges and the 'fit' of commissioning frameworks. The results revealed that the spin-out sector is experiencing growth and that government policy initiatives are having partial success in promoting spin-outs. The research also revealed that the most significant challenge facing spin-outs in the future is related to access to finance and 'payment by results' contracting. Finally, the data also suggests that the greatest growth is experienced by those spin-outs that trade directly with consumers and that receive repayable investment.

Introduction

The spinning out of public services has been a focus of government policy in the UK since the late 1980s, when new housing associations were developed. This was continued throughout the 1990s with the creation of new leisure trusts. The election of the new Labour government in 1997 began a process of policy reform in this area due to New Labour's commitment to a 'third way' in public service delivery and management (Haugh and Kitson, 2007). This third way of managing and delivering public services led to the development of the 'right to request' (RtR)

(now ‘right to provide’ or RtP) policy initiatives that provided an opportunity to public sector staff working in the health and social care sector to spin out the services that they delivered. A funding mechanism was also created to support these policy initiatives through the Social Enterprise Investment Fund (SEIF), which has invested (as of March 2011) over £82m in around 450 new and existing social enterprises (Social Investment Business, 2012). The RtR programme has led to the establishment of at least 38 new social enterprise spin-outs, with a total of at least 22,000 NHS staff working within them (Miller *et al.*, 2012a). The RtP scheme is ongoing and research to understand the outcomes that the programme is having is currently underway (see Hall *et al.*, 2013).

As the prolongation and expansion of the RtR scheme through the currently running RtP programme shows, the election of the coalition government in 2010 has not curbed the enthusiasm for the spinning out of public services into public service mutuals and social enterprises. Indeed, the ‘Big Society’ agenda has led policy-makers and politicians to pursue a policy and regulatory framework that enables public sector workers to take over and run their services as mutuals, social enterprises, cooperatives or charities (Cabinet Office, 2010). Public service mutuals have been defined as ‘organisations which have left the public sector i.e. spun out, but continue to deliver public services and in which employee control plays a significant role in their operation’ (LeGrand and Mutuals Taskforce, 2012: 9). This proposed democratisation of public services has been driven by a desire to create more efficient public services through marketisation and the empowerment of staff and beneficiaries.

In recent years this agenda has been driven by both supply- and demand-side policies. Supply-side policies have included the RtR and RtP programmes outlined above, as well as the launch of the Mutuals Pathfinder Programme (MPP) in 2010 and the online Mutuals Information Service (MIS). The £10m MPP has since its inception led to the creation of 21 pathfinder mutuals (Cabinet Office, 2011), while the MIS has provided a diagnostic service to assess the readiness of existing public services for spinning out into a public service mutual (PA Consulting Group, 2013). Demand-side policy has seen the passage into law of the Social Value Act 2012, which has required commissioners of public services to ‘consider how the services they commission and procure might improve the economic, social and environmental well-being of the area’ (SEUK, 2012: 5). The Social Value Act came into effect in January 2013 and while there is no agreed definition of what constitutes social value, it has been defined as relating to the ‘additional benefit to the community [non-financial] from a procurement process over and above the purchasing of goods, services and outcomes’ (NAVCA, 2013). This has also been combined with a drive at a

European level to promote the consideration of social value in procurement processes. Indeed, the EU Internal Market and Consumer Protection Committee recommended to the European Commission that it should ‘reassess the appropriate level of thresholds for supply and service contracts, so as to facilitate access to public procurement by amongst others not-for-profit and social economy operators as well as SMEs, and if necessary raise them’ (EU-IMC, 2011). This expanding policy framework for the support and development of public service mutuals and other types of spin-out has led to a growth in the UK of the number of staff choosing to spin out from their parent authority and to operate their service independently of the state. However, despite this growth, there is still little research and understanding that explores the motivations for spin-outs and the outcomes that such processes are having on public services, as well as what barriers and constraints are being faced by spin-outs in relation to sustainability and growth.

Prior Literature

Motivations for Spin-outs:

The motivations behind public service staff choosing to spin out are often complex and diverse. Prior research has suggested that staff motivations for spinning out can be classified into two main categories: ‘pull’ and ‘push’ motivations (Addicott, 2011; Hall *et al.*, 2012a). ‘Pull’ motivations are opportunity driven and include desires to improve public service provision or to innovate in service delivery. However, there can also be powerful ‘push’ motivations such as:

- Budget cuts (or even service decommissioning).
- Government policy initiatives making spinning out more attractive.
- A need to meet new performance targets that would not be possible through a traditional delivery method (Hazenberg and Hall, 2013).

Indeed, research by Hazenberg and Hall (2013) into the experiences of four potential local authority spin-outs in London identified that the ‘push’ factors outlined above were important drivers in the spin-out process. This has also been demonstrated in the health and social care sector with research identifying that spinning out was the only opportunity that would allow staff to either retain control over their service or to avoid its decommissioning/privatisation (Hall *et al.*, 2012a). Nevertheless, whatever the motivations for staff-led public service spin-outs, there are a number of benefits cited for staff working in spin-outs. These include increased involvement in the decision-making process, greater engagement and commitment to quality

service delivery, increased staff morale and lower staff turnover and sickness levels (Cabinet Office, 2011; Social Enterprise Coalition, 2011). Research has also suggested that spinning out leads to faster organisational decision-making processes (Addicott, 2011; Hall *et al.*, 2012b; Alcock *et al.*, 2012) and can also produce bottom-up innovation and creativity from the staff working within the spin-out (City Care Partnership, cited in Social Enterprise Coalition, 2011: 2). However, despite these potential benefits, there have also been a number of barriers identified in prior research that can delay or prevent staff-led spin-outs from occurring.

Barriers to Spinning Out:

There prior literature has identified numerous barriers to a successful spin-out. Indeed, it can often take spin-outs a considerable amount of time to establish themselves and to secure access to contracts (Hall *et al.*, 2012b; Tribal, 2009; Miller and Millar, 2011), and so access to finance is crucial to the success of any transition. While this may sometimes be provided by the parent authority, in circumstances where this is not the case, private investment is difficult to obtain for all but the largest of spin-outs. Indeed, the social investment market in the UK is not yet sufficiently developed to be able to capitalise spin-outs, with the total size of the market as of 2011 being £165m (Brown and Norman, 2011) and the average investment being approximately £500,000 (Hazenberg *et al.*, 2013). In addition to this, many spin-outs (at least in their early stages) rely on one or a small number of public sector contracts, which makes social investors reluctant to capitalise the organisation through investment (Hazenberg *et al.*, 2013).

The process of spinning out a public service is also complex and presents many legal issues/barriers. Trade unions remain concerned about how such processes affect their members' employment and pension rights (Birchall, 2012; TUC, 2011). There is therefore a need for parent authorities to tread very carefully when transferring liabilities (i.e. pensions), often with legal departments that have limited capabilities in such areas. External law firms can be brought into the process to advise, however, this only drives up the financial cost. Finally, there are also concerns about the ability of public service staff to develop their services into sustainable spin-outs, often due to a perceived lack of business skills. Service staff often need to engage with the business and commissioning elements of their service and often have to assume leadership roles within their organisation and work in new ways (Addicott, 2011; Simmons, 2008). Indeed, the key facet of any social enterprise (and public service mutuals) remains the need to focus upon what Campi *et al.* (2006) termed the triple-bottom line (financial, social and environmental aims). This requires adept business management in what is for many spin-outs a very competitive

market place. Research suggests that this remains a major challenge for spin-outs (Hall *et al.*, 2013), while Hazenberg and Hall (2013) found that this was one of the reasons cited by senior managers within local authorities for rejecting or delaying spin-out proposals.

Summary:

The literature outlined above has provided an overview of the policy framework and history of public service spin-outs. The motivations for and the barriers to staff of spinning out public services have also been briefly explored. The rapid growth in the number of public service spin-outs operating in the UK in recent years, combined with the projected increase in such organisations due to ongoing policy strategies and the ongoing cuts to government spending, require research into the sector. This research must aid and develop our understanding in relation to:

- the size of the sector
- how it operates
- the barriers to its continued growth and to spinning out in general
- the motivations for spinning out
- the effect that such processes have on service delivery and the service-users themselves.

The research outlined in this report provides a first step towards this through the collection of survey data from spin-out organisations.

Research Aims

Based upon the literature outlined above, the research study aimed to explore the following three main research aims.

1. What is the current state of the spin-out sector? Particularly in relation to organisational:
 - a. Turnover?
 - b. Staffing?
 - c. Sector of operation?
 - d. Geographic reach?
 - e. Legal and governance organisational forms?

2. What policy and regulatory frameworks are being adopted or used by public service spin-outs?
3. What are the main perceived challenges facing spin-outs in the future? Particularly in relation to:
 - a. Payment by results?
 - b. Access to finance?
 - c. Commissioning and contracting?
 - d. Sustainability and growth?
 - e. Social impact measurement?

Methodology

Research Design:

The research adopted a quantitative methodology in which data was gathered from spin-out organisations through the completion of an online survey by either an organisation's chief executive or other senior management staff. The data was captured between December 2012 and April 2013 and represents a snapshot of the spin-out sector between these dates. The survey captured:

- Organisational demographics (i.e. age, turnover, staffing, legal and governance frameworks etc.).
- The policy framework adopted in the spin-out (if any).
- Perceptions of the future challenges facing spin-outs and the suitability of existing commissioning frameworks.

Participants:

An intensive review of secondary data (website, online resources and publications) was conducted by staff at the Transition Institute in order to identify potential spin-out organisations that matched the Transition Institute's definition of a spin-out (see below). In total this review identified 210 organisations that were potential spin-outs, including housing associations and leisure trusts. An email explaining the purpose of the research and a link to the online survey was

sent out to all of these organisations inviting them to participate. Follow-up emails were then sent to organisations that had not completed the survey and these were then followed up with telephone calls in order to further explain the purpose of the survey and to encourage participation. The survey invited the organisations to self-define whether they were a spin-out organisation against the Transition Institute definition outlined below.

“An organisation that has transitioned out of a public sector body to become an independent public service provider. Spin-outs tend to prioritise the maximisation of social value within their services and usually take the structure of a cooperative, mutual or social enterprise”.

In total 59 organisations out of the 210 identified completed the survey. This gave a response rate of 28.1% and of these; five stated that they did not consider themselves as a spin-out against the above definition, leaving 54 respondents for the data analysis¹.

Analysis:

All questionnaire data was entered into SPSS version 20.0 and all analyses were conducted using this software. Descriptive statistics were sought from the data and relationships between the organisational demographic data captured were also explored using cross-tabulation chi-squared tests². Chi-squared tests were also used to explore the relationship between organisational variables and organisational perceptions of future challenges. The relationship between organisational demographics and scale variables (i.e. organisational staffing changes over time) were explored using one-way and two-way ANOVAs.

Results

Spin-out Organisational Data:

As part of the survey, organisational demographic data was captured relating to the age of the spin-out, the sector and geographical scale of operation, turnover and staffing levels. An outline of this data is presented below in Table 1.

¹ Some respondents did not answer all the survey questions, so some analyses have a value of $N < 54$.

² Due to the small sample sizes within cells, Fisher's Exact test was used for statistical significance and all p values reported conform to this.

Table 1 – Organisational Demographic Data				
Category/Sub-category		N (%)	Range	Average
Age (years)		53	1–21	4.8
Category/Sub-category		N (Total)	N	Percentage
Sector	<i>Health</i>	54	18	33.3
	<i>Leisure</i>		15	27.8
	<i>Social care</i>		10	18.5
	<i>Employment</i>		6	11.1
	<i>Children and youth</i>		4	7.4
	<i>Other</i>		1	1.9
Category/Sub-category		N (Total)	N	Percentage
Geographic scale	<i>Local</i>	54	25	46.3
	<i>Regional</i>		18	33.3
	<i>Multi-regional</i>		5	9.3
	<i>National</i>		5	9.3
	<i>International</i>		1	1.9
Category/Sub-category		N (Total)	N	Percentage
Turnover (£)	<i>0–50k</i>	54	1	2.0
	<i>50–100k</i>		2	3.9
	<i>100–500k</i>		4	7.8
	<i>500k–1m</i>		9	17.6
	<i>1–5m</i>		10	19.6
	<i>5m+</i>		25	49.0
Category/Sub-category		N (Total)	N	Percentage
Staffing levels	< 10	54	7	15.0
	10–24		5	9.3
	25–49		5	9.3
	50–99		5	9.3
	100–249		5	9.3
	250+		27	50.0

The survey data reveals that the mean age of the spin-out organisation participants was 4.8 years, although some organisations had existed since the early 1990s. A total of 51.8% of respondents operated in the health and social care sector. A further 27.8% of the sample operated in the leisure sector, which again highlights the impact that government policy had in the 1990s through the establishment of leisure trusts. There were also a very small number of spin-out organisations in the children and youth services, employment and ‘other’ sectors of public service delivery. The majority of respondents (79.6%) also only operated at a local or regional level, which is understandable given that many would have spun out from local authorities, primary care trusts (PCTs) or NHS foundations. Interestingly, the majority of the participant spin-outs were moderately large organisations employing more than 100 staff (59.3%) and generating an income of over £1m per annum (68.6%).

Data was also captured from the participant organisations relating to the spin-out process that they engaged with, the policy framework that underpinned this (if any), the originating parent

authority, the motivation for spinning out and the methods used for transferring assets and contract provision. Analysis of this data reveals that the majority of spin-outs originated from local authorities or PCTs (69.8%). Interestingly, a large proportion of spin-outs (45.3%) followed no specific policy path in spinning out their public service. In the health and social care sector, RtR was the most used framework, accounting for 28.3% of total respondents and 51.9% of spin-outs operating in the health or social care sectors. Mutual pathfinders had also provided the policy framework for 11.3% of the spin-out respondents.

Asset transfers also provided some interesting data as the vast majority of spin-outs (85.7%) used Transfer of Undertakings (Protection of Employment) or TUPE to transfer across staff and their pension entitlements. However, when transferring other assets, there was no specific path favoured by the participant organisations with locked-in asset transfers, long-term leases and occupancy arrangements all used. In securing contracts the majority of spin-outs (58.2%) either pushed ahead with uncontested contracts or operated as a Plan B service. Finally, the motivations behind the spinning out of public services showed that 47.8% took place due to a desire to improve control over and the quality of services. However, the need to respond proactively to budget cuts (15.2%) and a desire to increase service user engagement (13%) were also factors. This data is outlined below in Table 2.

Table 2 – The Spin-out Process				
Category/Sub-category		N (Total)	N	Percentage
Parent authority	1. Local authority	53	22	41.5
	2. PCT		15	28.3
	3. Other		5	9.4
	4. NHS other		4	7.5
	5. Central government		4	7.5
	6. NHS foundation		3	5.7
Category/Sub-category		N (Total)	N	Percentage
Policy framework	1. None	53	24	45.3
	2. RtR		15	28.3
	3. Mutual pathfinders		6	11.3
	4. Other		4	7.5
	5. RtP		3	5.7
	6. Community right to challenge		1	1.9
Category/Sub-category		N (Total)	N	Percentage
TUPE	1. Yes	49	42	85.7
	2. No		7	14.3
Category/Sub-category		N (Total)	N	Percentage
Asset Transfer	1. None	47	15	31.9
	2. Occup arrangement		7	14.9
	3. 5–14 year lease		6	12.8
	4. 15+ year lease		6	12.8
	5. Locked-up transfer		6	12.8
	6. Other		4	8.5
	7. 0–5 year lease		3	6.4
Category/Sub-category		N (Total)	N	Percentage
Contract	1. Uncontested	43	14	32.6
	2. Plan B service		11	25.6
	3. Other		8	18.6
	4. None		6	14.0
	5. Internal (Teckal exempt)		3	7.0
	6. Joint venture		1	2.3
Category/Sub-category		N (Total)	N	Percentage
Motivation	1. Service quality/control	46	22	47.8
	2. Proactive response to budget cuts		7	15.2
	3. Service user engagement		6	13.0
	4. Win contracts outside the public sector		4	8.7
	5. Avoid decommissioning		3	6.5
	6. Staff T&Cs		2	4.3
	7. Other		2	4.3

The participants also provided information surrounding their sustainability in relation to their sources of income and how their staffing levels had changed since they had spun out. An outline of this data is provided below in Table 3.

Table 3 – Staffing, Income and Sustainability								
Category/Sub-category		N (Total)	N	Percentage	Average change			
					Total		Sub-cat	
					Mean	Median	Mean	Median
Staffing	1. <i>Decreased</i>	54	9	16.7	149.67	22.0	-13.7	-5.0
	2. <i>Maintained</i>		11	20.4			0	0
	3. <i>Increased</i>		34	63.0			184.8	30.0
Category/Sub-category		N (Total)	N	Percentage				
Main sector of trade	1. <i>Public</i>	51	5	45.1				
	2. <i>Consumers</i>		13	25.5				
	3. <i>Grants/core Funding</i>		23	19.6				
	4. <i>Private</i>		10	9.8				
Category/Sub-category		N (Total)	N	Percentage				
Main income source	1. <i>Parent authority</i>	48	28	58.3				
	2. <i>Traditional bank</i>		9	18.8				
	3. <i>SVP</i>		6	12.5				
	4. <i>Ethical bank</i>		3	6.3				
	5. <i>Mutual</i>		1	2.1				
	6. <i>Venture capital</i>		1	2.1				
Category/Sub-category		N (Total)	N	Percentage				
Main income type	1. <i>Grant</i>	42	18	42.9				
	2. <i>Working capital</i>		12	28.6				
	3. <i>Repayable grant</i>		6	14.3				
	4. <i>Secured loan</i>		2	4.8				
	5. <i>Cashflow loan</i>		1	2.4				
	6. <i>Unsecured loan</i>		1	2.4				
	7. <i>Equity</i>		1	2.4				
	8. <i>Quasi-equity</i>		1	2.4				

NB. SVP = Social Venture Philanthropy.

Analysis of the data contained in Table 4.3 reveals that the majority of spin-outs surveyed (63%) had experienced growth since their inception, with an average mean growth rate of nearly 150 staff per spin-out and a median growth of 30 employees. However, the mean figure of 150 is skewed by two spin-out organisations that between them accounted for a 4,400-job increase (or 70% of all the jobs created by the 34 spin-outs who increased staffing levels). These two spin-outs were therefore removed from the mean calculation, which reduced the mean increase in staffing levels to a more representative 58.8. The income data also provided some stark findings, with 64.7% of the spin-outs surveyed being reliant on either public sector trade or grants/core funding for their primary income. This was also reflected by the nearly 60% of respondent organisations for which their parent authority was the main source of income. Surprisingly, only

18.8% of spin-outs had sourced their primary income from the SIM, with 20.9% of organisations accessing their primary capital from the traditional finance sector. Perhaps more worryingly in relation to sustainability was the heavy reliance (57.2%) on grant (or repayable grant) funding. Indeed, only 14.4% of spin-out respondents had accessed repayable investment as their primary source of income.

The respondents were also asked to provide data relating to their business model, legal structure and governance model. This data is outlined below in Table 4.

Table 4 – Business, Legal and Governance Models/Structures				
Category/Sub-category		N (Total)	N	Percentage
Business model	1. <i>Social enterprise</i>	49	31	63.3
	2. <i>Charity trading arm</i>		11	22.4
	3. <i>Employee-owned</i>		3	6.1
	4. <i>Social firm</i>		2	4.1
	5. <i>Cooperative</i>		2	4.1
Category/Sub-category		N (Total)	N	Percentage
Legal structure	1. <i>CLG</i>	49	17	34.7
	2. <i>CIC</i>		12	24.5
	3. <i>CLS</i>		7	14.3
	4. <i>Charity</i>		6	12.2
	5. <i>IPS</i>		6	12.2
	6. <i>LLP</i>		1	2.0
Category/Sub-category		N (Total)	N	Percentage
Governance model	1. <i>Board of directors (BD) with staff</i>	48	19	39.6
	2. <i>BD</i>		16	33.3
	3. <i>BD with stakeholders</i>		8	16.7
	4. <i>BD with community</i>		5	10.4

NB. CLG = company limited by guarantee; CLS = company limited by share; CIC = community interest company; IPS = industrial provident society; LLP = limited liability partnership.

The majority of spin-out organisations (63.3%) classed themselves as social enterprises, but surprisingly only 24.5% of respondent organisation had adopted the CIC legal structure designed for social enterprises. Indeed, a large proportion of the spin-outs (49%) had opted to establish themselves as limited companies, either by guarantee or by share. However, perhaps the most interesting finding was that 72.9% of spin-outs had governance arrangements that limited decision-making powers to executive board members or executive board members and staff. Indeed, only 10.4% of respondent organisations allowed for community input into their governance structures and hence decision-making processes. Finally, the respondents were asked to state their level of concern in relation to seven statements, as well as being asked to rate the

commissioning framework’s ‘fit’ with public service mutuals in their sector. The data for this is displayed below in Table 5.

Table 5 – Key Spin-out Concerns and Commissioning Framework ‘fit’						
Q: How would you value some of the challenges faced by current and prospective spin-outs? (%)						
Statement	N	Not worried at all	A bit worried	Worried	Very worried	It’s my main concern
1. Tendering under a PbR scheme	46	30.4	23.9	37.0	6.5	2.2
2. Assuring the initial contract	45	35.6	33.3	15.6	2.2	13.3
3. Assuring new contracts beyond the initial contract	48	14.6	37.5	25.0	12.5	10.4
4. Access to finance	46	26.1	28.3	28.3	8.7	8.7
5. Measuring your social impact	46	43.5	39.1	8.7	6.5	2.2
6. Transfer of personnel	47	51.1	23.4	17.0	6.4	2.1
7. Consolidation and growth	47	21.3	40.4	25.5	4.3	8.5
Q: To what extent do you consider that the current commissioning framework captures the potential for public service delivery of spin-outs? (%)						
• N	It does not capture it at all	It captures it a little	It captures it a fair amount	It captures it a lot	It captures it completely	
• 47	14.9	25.5	42.6	14.9	2.1	

The data presented above shows that the main concern of the spin-outs surveyed related to having to tender for contracts under a PbR model, although access to finance was also a worry for spin-outs. Additionally, the majority of spin-outs (59.6%) felt that the current commissioning frameworks in their sectors captured the potential for spin-outs at least a fair amount.

Relationship Analyses:

In addition to the descriptive statistics outlined above, an analysis of the relationships between organisational factors and organisational growth in relation to staff numbers since inception were also undertaken. Two-way ANOVAs were used to explore:

- The relationship between sectors of operation (e.g. health, education or employment).
- The spin-out policy framework adopted (e.g. Pathfinders, RtR or RtP).
- Geographical operation (e.g. local, regional, national and international).

No statistically significant results were obtained, suggesting that none of the above factors affected staffing levels at spin-outs. However, a statistically significant relationship ($N = 36; p < 0.001$) was found between growth in staffing levels and the main sector of trade, with spin-outs who directly traded with consumers experiencing significantly larger increases in staffing than their counterparts. Figure 1 below graphically outlines this finding.

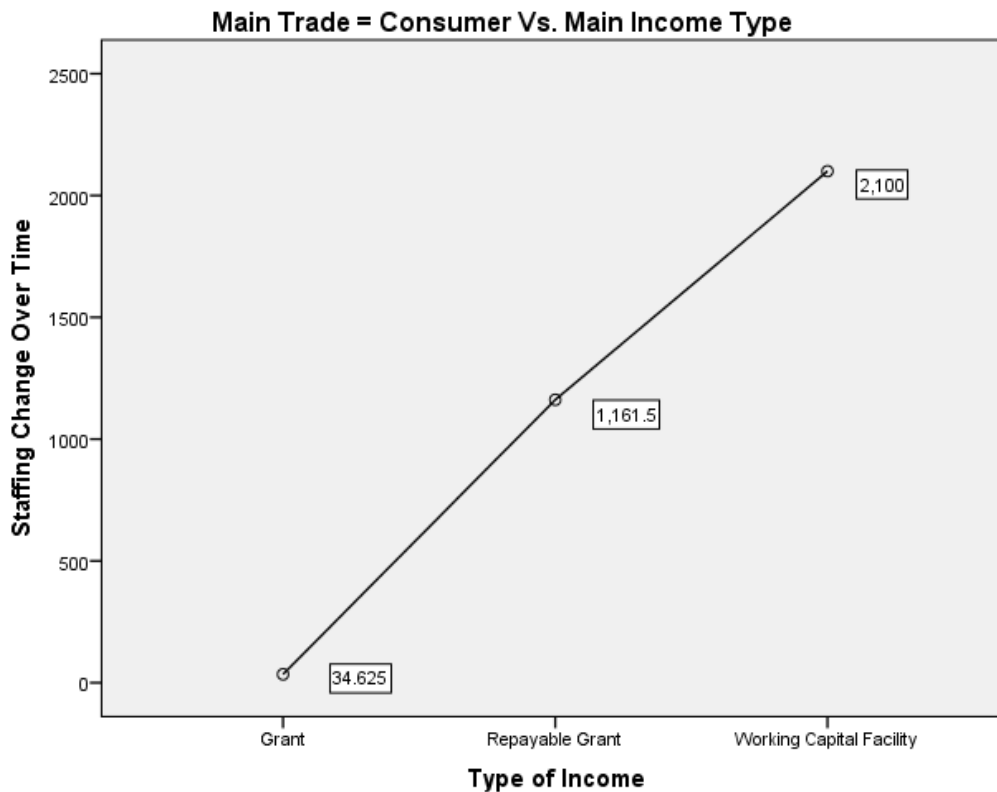
Figure 1 – Staffing Levels and Main Sector of Trade:



NB. The staffing changes figures in the above graph are estimated marginal means as calculated in SPSS.

The effect of main trading sector was, however, mediated by the main type of income received by a spin-out. For those spin-outs that received their primary income in the form of grants, the growth in staffing levels was much lower when compared to those spin-outs that had received some form of repayable investment ($N = 11; p < 0.05$). This investment may have been in the form of a repayable grant or a working capital facility. Figure 2 below graphically outlines this interaction.

Figure 2 – Main Sector of Trade and Main Income Type:



NB. The staffing changes figures in the above graph are estimated marginal means as calculated in SPSS.

Analysis was also undertaken to explore the relationship between income and organisational perceptions of the challenges that they faced. Cross-tabulations using the chi-squared test were undertaken to explore the relationship between organisational income and the potential future organisational challenges listed below. Participants were asked to rate how concerned they were about the seven proposed future challenges (listed below) on a five-point Likert scale ranging from 1 (not worried at all) to 5 (it is my main concern). Statistically significant results were identified for the relationship between organisational turnover and access to finance. A near statistically significant result was also obtained for the relationship between organisational turnover and the challenge posed by PbR contracting. The results of this analysis are outlined below in Tables 6 and 7.

- Challenge of PbR contracting.
- Assuring the initial contract.
- Challenge of securing future contracts.
- Access to finance.
- Measuring social impact.
- Transfer of personnel.

- Consolidation and growth.

Table 6 – Challenge of PbR Contracting						
Income (£)	<i>N</i>	Not worried at all (%)	A bit worried (%)	Worried (%)	Very worried (%)	It is my main concern (%)
0–500k	9	22.2	11.1	55.6	0.0	11.1
500k–1m	8	25.0	50.0	25.0	0.0	0.0
1m–5m	9	11.1	0.0	77.8	11.1	0.0
5m+	24	37.5	29.2	25.0	8.3	0.0

NB. *N* = 50; any *p* values reported are based upon Fisher’s Exact test due to the small sample size.

Table 6 shows that there was some concern among all of the participants about PbR contracting, but that this concern increased the smaller an organisation’s turnover. Indeed, spin-outs with less than £500k turnover were over twice as likely to be worried about PbR contracting than those spin-outs that had a turnover of over £5m. The relationship between organisational concern and turnover was not linear, and this is reflected in the high proportion of participants (88.9%) in the £1–5m turnover bracket that were worried or very worried about PbR. However, the results gained were not statistically significant ($p = .08$) and so this can only be viewed as a possible trend.

Table 7 – Access to finance						
Income (£)	<i>N</i>	Not worried at all (%)	A bit worried (%)	Worried	Very worried (%)	It is my main concern (%)
0–500k	9	11.2	22.2	33.3	0.0	33.3
500k–1m	8	25.0	25.0	25.0	25.0	25.0
1m–5m	9	0.0	66.7	11.1	11.1	11.1
5m+	24	37.5	20.8	37.5	4.2	0.0

NB. *N* = 50; any *p* values reported are based upon Fisher’s Exact test due to the small sample size.

The results outlined in Table 7 revealed a statistically significant relationship ($p < 0.05$) between organisational turnover and concern over access to finance, with around two thirds of larger organisations (£1m+ turnover) being unworried or only slightly worried. This was in comparison to smaller organisations that were at least worried by access to finance (£0–500k = 66.6%; £500k–1m = 75%). This result suggests that smaller spin-outs are struggling to access the finance that they require to remain sustainable and/or to grow.

Discussion

The data analysis revealed some interesting findings in relation to the state of the spin-out sector in 2013. The majority of spin-outs that responded to the survey (79.6%) operated in the health, social care and leisure sectors. This is unsurprising as new leisure trusts have been in existence for around 20 years and so as a spin-out sector, they are more established than some of the newer spin-out sectors. Equally, the health and social care sector accounting for 51.9% of the respondents was also unsurprising and points to the success that policy initiatives such as RtR and RtP have had in encouraging spin-outs, particularly with the financial support that was also offered to such spin-outs through the SEIF (Miller *et al.*, 2012a; Social Investment Business, 2012). Indeed, this suggests that funds such as the SEIF could be very beneficial to spin-outs in providing access to capital that is otherwise difficult to come by from the private and social investment sectors (Hazenberg *et al.*, 2013). The small number of spin-out respondents from the both the children and youth and employment sectors was also interesting and suggests that more could be done to promote awareness of spin-outs within these sectors by policy-makers (Burns, 2012).

The average age of the spin-out organisations that participated was also low (4.8 years), considering that the data was skewed to a degree by the much older housing and leisure sector spin-outs that participated. Indeed, if the housing and spin-out organisations were taken out of the data set, then the average age of the organisations that responded was 3.5 years. This suggests that even though some schemes were established several years ago (i.e. RtR), there is still a barrier in existence in relation to raising awareness around spin-out opportunities (Burns, 2012). Equally, it could be indicative of the complexity of the spin-out process and the time that it takes to fully spin out a service from a parent authority (Birchall, 2012). However, it also demonstrates that many of the spin-outs had survived the transition to independence and that they had successfully traded for several years.

The vast majority of the spin-outs also operated only within their locality (either their immediate location or region). Again this result is unsurprising as the majority of the spin-outs would have been operating their services prior to spinning out for a local authority or PCT, which by their very nature operate locally. Surprisingly, the data revealed that the majority of the respondent organisations (~50%) had high turnovers (£5m+) and high staffing levels (250+ staff). This suggests that a large number of spin-outs involve the spinning out of large public services (often within the health sector) that also involve the transfer across of large numbers of staff and hence

liabilities such as pensions (Birchall, 2012). It also suggests that the financing requirements of many public service mutuals are significant and certainly above the average financial transactions currently occurring within the social investment market (SIM) (Hazenberg *et al.*, 2013).

Perhaps surprisingly, nearly half of the respondents (45.3%) did not follow any specific policy framework in spinning out. This again suggests that awareness of the differing policy frameworks is not widespread among staff (Burns, 2012), or that they are unsuitable for a lot of the potential spin-out organisations operating within the public sector. Policy-makers should focus on raising awareness and exploring what other support could be provided to public sector staff seeking to spin out. Further research is required in this area to understand the reasons behind this. The most commonly used policy framework was the RtR/RtP programme that accounted for 34% of the spin-out respondents, a finding that again shows the impact that intensive and early stage support had in the health and social care sectors (Miller *et al.*, 2012a).

A large proportion of the sample (85.7%) had used TUPE in transferring their staff, suggesting that the legal and financial complexities surrounding it have not been insurmountable (Birchall, 2012). However, further research could explore whether the spin-outs used the services of external law firms in this process or merely existing departments within their parent authority. The data on the motivations behind spin-outs was very interesting with 47.8% of respondents stating that the primary reason for spinning out was to retain control over the service and ensure the quality of provision. Only 13% stated that they had spun out primarily for reasons of service-user engagement. This offers support to prior research by Simmons (2008) that questioned the level to which users are actually engaged in spin-outs and how much their views shape service delivery.

The data provided positive results in relation to spin-out growth (as measured through changes in staffing levels since inception). The spin-out respondents had experienced a mean growth of nearly 60 staff members since inception (nearly 150 if the two largest organisations are left in the analysis). This suggests that despite the varied challenges facing the spin-out sector, the spin-out organisations are still managing to grow. Indeed, analysis revealed an interesting and statistically significant relationship ($p < 0.001$) between spin-out growth in staffing levels and main trading sector. Those spin-outs for which the main trading sector was directly with consumers (as opposed to private/public sector organisations or grant funding bodies) experienced at least seven times the growth in staffing numbers. This result was also mediated within those spin-outs that traded directly with consumers by where the organisation's largest amount of income came from.

If the main source of income came in the form of a grant, then growth in staffing levels was statistically significantly lower ($p < 0.05$) than if the main source of income was a repayable grant or a working capital facility. This suggests that actual *investment* as opposed to subsidy produces better performance among spin-outs, although further research to explore this area is required due to the small sample size. It may therefore be beneficial for policy-makers to develop initiatives that will promote investment in spin-outs from the private sector and/or social investment market or through investment from the parent authority. Prior research has identified that the sums available from the SIM are not high enough for the needs of many public sector spin-outs (Hazenberg *et al.*, 2013).

The survey also captured data from participants about their legal structures and governance arrangements. Surprisingly, only around a quarter of spin-outs (24.5%) had incorporated themselves as CICs, despite nearly two-thirds (63.3%) identifying themselves as social enterprises and this finding suggests that the CIC legal form is not a necessity for many spin-out organisations (LGG, 2011). Indeed, the majority (49%) set themselves up as limited companies. In addition to this and in relation to the finding outlined above regarding spin-out motivations, there were a surprisingly small number of spin-outs that engaged users within their governance arrangements. Only 10.4% of respondent organisations had a board structure that engaged beneficiaries, while 72.9% had board structures that incorporated only directors or directors and staff. This again offers support to prior research by Simmons (2008) that questioned how engaged service users were with spin-outs.

The respondents were also surveyed about their concerns for the future in seven areas. These were:

- PbR contracting.
- Assuring the initial contract.
- The challenge of securing future contracts.
- Access to finance.
- Measuring social impact.
- The transfer of personnel.
- Consolidation and growth.

The main concerns for spin-outs related to having to potentially tender for contracts under a PbR model, as well as gaining access to finance (Hall *et al.*, 2012b). Perhaps surprisingly, nearly 60%

of the respondents felt that the current commissioning frameworks at least captured the potential of spin-outs a 'fair amount'. Nevertheless, this does suggest that there is room for improvement in commissioning processes and further research to explore the impact of the Social Value Act in this area would be beneficial (SEUK, 2012).

Finally, there were some interesting findings in relation to the impact of organisational turnover on these concerns, specifically in relation to PbR contracting and access to finance. There was a statistically significant relationship between organisational turnover and concern over access to finance, with smaller spin-outs (< £1m turnover) being more concerned about securing finance than larger spin-outs (> £1m turnover). This offers support to prior research that identified accessing contracts and finance as a serious concern for spin-outs (Hall *et al.*, 2012b; Tribal, 2009; Miller and Millar, 2011) and is in some ways unsurprising as smaller organisations do not always have the capacity and governance structures that investors/commissioners are seeking. The finding may also suggest that the commissioning processes currently in place favour larger organisations, hence the more optimistic attitudes among the larger spin-out respondents in this survey. In relation to PbR the relationship was not statistically significant ($p = 0.08$) but was close enough to suggest a possible trend. While the majority of the spin-out respondents were at least partly concerned by contracting on a PbR model, this concern grew larger the smaller the turnover of the spin-out organisation. Again, such a finding is unsurprising as PbR contracts carry inherent risks to service providers (such as the delay in payment and possible reductions in such payments) that are easier to absorb for larger organisations. This suggests that an additional barrier may exist for smaller spin-outs (< £500k turnover) over and above what has been reported in the prior literature (Simmons, 2008; Tribal, 2009; Addicott, 2011; Miller and Millar, 2011; Birchall, 2012; Hall *et al.*, 2012b; Hazenberg and Hall, 2013).

Summary

There is growing interest in the spinning out of public services into social enterprises, mutuals and cooperatives. Spin-outs are seen as providing greater stakeholder buy-in to services through increased staff involvement in the decision-making process, greater engagement and commitment to quality service delivery, increased staff morale and lower staff turnover and sickness levels (Cabinet Office, 2011; Social Enterprise Coalition, 2011). Research has also suggested that spinning out leads to faster organisational decision-making processes (Addicott, 2011; Hall *et al.*, 2012b; Alcock *et al.*, 2012) and can also produce bottom-up innovation and creativity from the

staff working within the spin-out (City Care Partnership, cited in Social Enterprise Coalition, 2011: 2).

The research outlined in this report has identified that the spin-out sector is a growth sector that is helping to put public sector staff (and to a lesser degree public service beneficiaries) at the heart of service design, delivery and management. However, the survey data analysis reported in this study has identified key challenges that currently face the sector. These include:

- Access to finance, particularly for smaller organisations.
- Potentially low awareness among staff in the children and youth, employment and education sectors of the option to spin out their service.
- Concerns over some commissioning practices such as PbR, again particularly for smaller organisations.

The data show that if the aim of policy-makers is for the spin-out sector to continue to grow and to compete sustainably in the market place, then policy measures (and potentially finance) to help spin-outs to overcome these challenges would be extremely beneficial. Finally, while this survey provides an extremely informative snapshot of the state of the spin-out sector in 2013 (with over a quarter of all public service spin-outs participating), further research is required. The sample of respondents in this survey was (in statistical analysis terms) quite small, and a larger sample size in a future survey would provide greater confidence in the conclusions reported, as well as providing data on the development of the spin-out sector over time.

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