

Are you working for a public body and believe you could run a more effective service if you and your colleagues were left to your own devices, away from the bureaucracy and red tape of a parent organisation? Is your unit being cut due to tightened budgets leaving you to consider setting up a similar service on your own? Then you might want to consider creating a spin out.

Creating a spin out is a big decision. This guide will give a brief background on spin outs, an outline of the advantages and challenges of setting up a spin out, and a few action points to consider.

What is a spin out?

A spin out is where a company splits off a part of itself and creates a new organisation. For example, councils might consider handing services such as libraries and children's services to social enterprises instead.

Successful examples of spin outs

Greenwich Leisure Ltd

In 1993 Greenwich Council faced severe cuts in its funding of leisure centres. Greenwich Leisure Limited, a not-for-profit organisation, was recommended to manage this facility. The organisation now manages over 90 public leisure centres in partnership with 20 councils across the South East. Their remit is to provide leisure and fitness facilities to the public at affordable prices.

Their success has led them to becoming a mentor in the Government's Pathfinder Mutuals 'spin out' programme. In 2010 they won the Prime Minister's Big Society Award.

Find out more on the [GLL website](#)

Sandwell Community Caring Trust

Sandwell Community Caring Trust is a registered charity and social enterprise. It was founded in 1997 and provides health and social care services to adults and children. In 2008 it branched out geographically and won the contract to provide NHS and social services in Torbay.

Listing its staff as their main asset, it has been acclaimed as a blueprint for success for social enterprise projects in the Black Country.

Visit their [website](#) for more details

Why do spin outs occur?

Spin outs come about because of a number of factors:

- Contraction of the larger organisation brought about by a change in financial circumstances. Smaller units are faced with the choice of being closed down or else to go out and 'do it themselves'.

- A re-evaluation of strategic priorities. Some smaller units believe that they could be more innovative or productive if they were not swamped by a parent organisation's strategic priorities.
- A real or perceived frustration with the bureaucracy imposed by a parent organisation

Current government encouragement

Spin outs from local authorities is nothing new. During the past few years, a government-initiated strategy to encourage spin outs targeted the health sector. The logic behind this backing was that spin outs could operate more effectively and efficiently, improve service delivery, and would be more economically effective compared to the existing structure of the NHS.

In 2010, the government launched a similar strategy for local authorities. Non-governmental departments and/or quangos who face the termination of government funding are now considering the possibility of a sustainable future by generating earned income, for example by selling services.

Mutually owned structures

The majority of potential spin outs are becoming social enterprises and are choosing a mutually owned structure, a structure being actively encouraged by the government.

Mutual organisations do not have external shareholders – they are controlled by their members. They are either owned by and run in the interests of existing members, as in the case with building societies, co-operatives and friendly societies, or owned on behalf of the wider community and run in the interests of the wider public.

Mutualism fits well with the concept of social enterprise. The spin out is expected to trade to make a profit but is owned by the employee/stakeholder. Profits are retained by the spin out to grow and improve service delivery.

If you are going to be part of a spin out, you must remember that any assets you take with you were funded by the tax payer and are not your assets. You are holding on to these assets on behalf of the wider community.

Advantages of social enterprise spin outs

Greater control over service delivery

You will know what the requirements are to create change in the public sector. Unburdened by conflicting priorities and bureaucracy you should be able to concentrate on what you know is required and provide a more efficient and effective service. You will also be able to invest cost savings straight back into the services rather than the larger organisation.

Greater control over employment conditions

You can create an employment model that works best for you. There are a number of different ownership models that can be chosen (see the Guides on Legal Structures) but they all involve some form of employee participation. They can be:

- fully employee owned such as a mutual or cooperative,
- partial ownership where participation is guaranteed through voting rights such as a company limited by guarantee

Control over strategy

You can choose how you work, where you work, and what else you want to do. You are no longer constrained to deliver one type of service or be restricted to service

delivery within a certain region. For example, Sandwell Community Caring Trust has now spread its service from the midlands to Devon.

Stakeholder participation

By involving stakeholders more closely in strategy and governance, sometimes ownership, you could improve service delivery and help initiate new services and methodologies.

Challenges of social enterprise spin outs

Pensions

The spin out might not be able to offer the same pension scheme enjoyed by current public sector employees.

Job security

A spin out will be reliant on securing contracts and will face increasing competition to secure them. You may need to shed staff or close down altogether in difficult circumstances. This is something that you and your staff will need to consider carefully.

Culture change

You still need to make a profit and so you will need to behave more entrepreneurially than you may have done previously. This might not be comfortable for you.

Management responsibility

When managing a spin out you will have to take charge and any wrong decisions will have direct consequences for your enterprise and your colleagues. You need to be prepared to take on many hard decisions.

Patience

Establishing a spin out into practice is a very long process. You will meet set backs and frustrations, especially when you negotiate your exit from the parent organisation. It can take anything from 6 months to a year. This process may not even be successful.

Action points when considering a social enterprise spin out

Your business model

Is there a need for your service? Will someone be willing to purchase your service? What is the existing or potential competition? Can you diversify your income streams? Our [Business Planning Tool](#) can help you create a business model to answer these questions.

Access to contracts

As a new enterprise you may not qualify to access statutory contracts. You will have to negotiate with your parent body to protect contracts with you. This will allow you to build a track record for delivery of product or service and allow you to bid for contracts in the open market with more success. To find new contracts you can also use our [contracts finder](#).

Vision, energy and time

You will need to take the time to convince employees, management and stakeholders that they should support the transition. Employees may be reluctant to leave statutory employment and employers may not be supportive. A convincing business plan will help you gain the support you need.

Legalities

First, you will need to choose an appropriate legal structure for your enterprise. You can read our [guides on legal structures](#) for advice and guidance on this.

Secondly, you will need to consider the statutory rights of your employees with regards to pensions and employment contracts. It is possible that your parent organisation may continue to support your employees' pensions.

Third, you will need to seek legal advice regarding insurance cover. Again, your parent organisation may be willing to help.

There is the transfer of assets and equipment to consider. You will need to be careful that you don't contravene anti-competition laws or that you are perceived as receiving special treatment from your former parent body.

Finally, you will need to acquire specialist support from accountants with regards to VAT and other tax implications.

Finance

You will need finance to start up your enterprise and to cover the initial trading periods. You will need to secure banking facilities, loans and grants. See our [funding and finance](#) guide for more information.

Support functions

When you leave your parent organisation, it is likely that you will need to find new suppliers including accountants, legal, IT and HR bodies.

References

Social Enterprise Coalition – www.socialenterprise.org.uk

Employee Ownership Association – www.employeeownership.co.uk

Local Partnerships – www.localpartnerships.org.uk

Cabinet Office – www.cabinetoffice.gov.uk

Department of Health – www.dh.gov.uk

Department for Communities and Local Government – www.communities.gov.uk

Third Sector Research Centre – www.tsrc.ac.uk

Office for Public Management – www.opm.co.uk

London Councils – www.londoncouncils.gov.uk

Social Enterprise London – www.sel.org.uk