Employee Ownership Association

The voice of co-owned business

Dave Wheatcroft

Caring and sharing:

the co-owned route to better care

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CARING AND SHARING
The co-owned route to better care

www.employeeownership.co.uk

About the author

David Wheatcroft is an experienced practitioner in the employee ownership field. Coming from a trade union background he served over a decade as the elected employee director of Chesterfield Transport Ltd. He is one of the UK's foremost authorities on the practical applications of employee and union involvement in co-owned companies.

David was involved in the company throughout the bus industry's 1980s privatisation programme that took it from public ownership through five years of 100% employee ownership to the current private ownership within the Stagecoach group of companies.

David is now a Trustee on Stagecoach's three employee share scheme trust Boards; he is employee ownership advisor and trust administrator for Sunderland Home Care [SHC] and the Care and Share Associates [CASA] home care companies. He is also a director of the Employee Ownership Association, formerly Job Ownership Limited (JOL) and one of the four directors of CASA.

In 1995 he was awarded the Philip Mayo Award for Outstanding Contribution to Employee Ownership and has acted as an employee ownership adviser in Russia, Romania, Poland, Belgium, America, Spain, Hungary, Slovenia, Slovakia, Germany, France and Macedonia.

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I would like to thank all the employee owners of Sunderland Home Care Associates for giving me the insight into the most necessary, demanding and yet so rewarding job that they do in the most dedicated manner. They gave me the material and inspiration to write this report in an attempt to give them the recognition they so richly deserve - people like Shaun Jackson, Bill Miller, and Rachael Blyth who work so hard to keep the operation running smoothly. In particular I would like to thank Terrence Wright for allowing me to accompany him on his 'rounds' for a couple of days.

I would especially like to thank Graeme Nuttall of Equity Incentives for technical and legal support; also Margaret Elliott, Robert Oakeshott [founder of the Employee Ownership Association] and Stan Hegginbotham the ex chairman of Chesterfield Transport for providing information and helping me shape this report. Also Ann Tyler, chair of the Employee Ownership Association's lobbying and policy group and director of Employee Ownership Insight; Patrick Burns for editing; and a final thanks to Rachael Sloan for her previous report in 1996 'Co-operatives in the Community'.

Dave Wheatcroft, August 2007

Publisher

The Employee Association, founded in 1979 as Job Ownership Limited, is the voice of co-owned business in the UK. Its members include major enterprises such as the John Lewis Partnership, Arup Group, Mott MacDonald and Unipart Group, together with a diverse range of smaller companies from a spread of sectors. The Employee Ownership Association exists to promote and grow the co-owned business sector, and serve its member businesses. EOA papers are published by its charitable arm, Employee Ownership Insight.

Find more EOA publications at **www.employeeownership.co.uk**, including:

- CoCo Companies: work, happiness and employee ownership
- Good Business: the employee ownership experience
- Shared Company: how employee ownership works
- A Stake in the Post: making employees stakeholders in Royal Mail

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Foreword

Earlier this year I had the pleasure of visiting Sunderland Home Care as Minister for Social Exclusion. I looked forward to the visit with great anticipation for two reasons. Firstly, Sunderland Home Care carried a reputation for innovation and good practice that I knew well from being an MP in the North East, and they had just won the prestigious Enterprising Solutions Award too. And secondly I have known Margaret Elliott since the days before I became a politician when I taught community carers, and this added a personal element to the visit.

I met many of the Sunderland Home Care care workers on that visit and spent time with a client at their home, and I can lay testament to the sheer dedication of the staff I met on that day. The 200 or so care workers own the organisation itself, adding to the sense of commitment not just to the client – which one hopes every care professional to have – but an extraordinary bond with colleagues and, most significantly, the enterprise too. In this instance it has created an organisation that is responsive, dynamic, enterprising, and client focussed.

Choosing to exploit the social enterprise model as a framework for Sunderland Home Care was a great idea. It meant that a people-centric organisation would be guaranteed at the outset and would remain into the future, with enough flexibility for management to shape the organisation and structure its ownership model to encourage the outcomes they sought.

Most of the general public will only recognise a few social enterprise brands and fewer still will be familiar with the concept and ideals of social enterprise itself. But social enterprise is a growing force within our society. The combined turnover of social enterprise in the United Kingdom is estimated at £27 billion with a contribution to GDP of £8 billion. Even though this is approximately equivalent in combined size with the agricultural sector, the potential for social enterprise is clearly so much greater than it is today. Measuring it in purely financial terms does not reflect the possibilities for social change either.

When I became Cabinet Office Minister in 2005, the Prime Minister introduced a new cabinet post, Social Exclusion, and also brought the Office of the Third Sector and the Social Enterprise Unit into the department too. This was recognition of the growing role and the future potential of the third and social enterprise sectors in supporting the hardest to reach in our society. Some people have an understandable distrust of state agencies and seem able to form a much more trusting relationship with these organisations. As a result, they have the opportunity to become what Bill Clinton has called 'change makers' – people and organisations that change our society for the better.

And when it comes to social change what better example is there than Sunderland Home Care?

All employment has the potential to change lives for the better and fulfil people's aspirations. It is too easy when discussing social enterprise to underplay the contribution and importance that private enterprise makes to our society and to so many millions of people's lives. But in some cases more is needed over and above a straightforward employee / employer relationship in order to not just exploit people's talent, but inspire personal change. This can and should lead to wider change within our society, often among people with low aspirations or other personal challenges.

Poverty of aspiration is a particular problem faced in the North East of England, a part of the country close to my heart. A unique industrial past and rapid economic restructuring – brutally mismanaged during the 1980's - has left many people struggling to adjust to a globalised world where people aren't just competing for jobs with folk in the next village but often in another continent altogether.

By creating an organisation owned by its staff, Sunderland Home Care employees at all levels have been empowered to influence decisions including budgets, pay and conditions of employment. Risky, some may think. But in this case it has had a remarkably positive effect on everyone involved in the enterprise. Employees have had their aspirations raised – working together as a team they directly benefit from greater corporate achievement. Pressure to excel not only comes from above, but from every level of the organisation including from peers.

One lesson that comes from the Sunderland Home Care experience is that participation changes people's lives. This is outlined clearly in the paper you are about to read. By extending the benefits of employment to carers from all backgrounds and incentivising their development as a core activity of the organisation, the enterprise has evolved with the twin aims of offering superlative client care and a level of personal development to staff that is matched by few other organisations in any sector.

With a mission to provide the best service to clients yet leverage the power of entrepreneurial spirit to elevate the aspirations of the staff too, Sunderland Home Care has provided us with a model of changing society for the better that we all need to learn from.

We in the North East badly need this level of enterprising spirit and dedication to social development. We have the talent, and we have the potential, but too rarely is either fully exploited.

I hope that you enjoy this paper, and learn from it, as I have. It is too rarely we come across true change-makers, and I have no doubt that in Sunderland Home Care we have just that. We should take heed of the lessons we can all learn from their example.

Rt Hon Hilary Armstrong MP

Preface

'Caring and Sharing' is a personal account of how an employee owned company – Sunderland Home Care Associates (20-20) – was formed and has flourished. For simplicity the paper refers to Sunderland Home Care, or SHC, throughout rather than the full name. The story is told by Dave Wheatcroft, a trade unionist, leading expert on employee ownership, and a participant in much of SHC's story.

Although this paper is about a business, and about how co-owned companies can deliver public services, it's also about a remarkable individual - the company's founder, Margaret Elliott. Typically, Margaret would be the first to pass the plaudits to the people she's worked with over the years to make the business – and its successful spin-offs – work. But everyone involved with Sunderland Home Care knows that success is due above all to Margaret's extraordinary vision, passion and drive.

Both the author Dave Wheatcroft and Margaret Elliott herself are longstanding directors of the Employee Ownership Association, the publishers of this paper. A critical figure in the foundation of SHCA, Robert Oakeshott, also founded Job Ownership Limited, the forerunner of the Employee Ownership Association. The views expressed in the paper are Dave's, but the Association endorses his paper and is proud of its links with Sunderland Home Care.

The policy implications

One week in October 2006 provided a snapshot of why Sunderland Home Care's success should matter to policy makers.

On 18 October 2006, the media reported disturbing findings on elderly home care by the Commission for Social Care Inspection. Its 'Time to Care' report heavily criticised the standards of home care experienced by hundreds of thousands of older people. "There are problems of recruiting, retaining and training good quality staff" said the CCSI's chief inspector, Paul Snell.

Exactly one week later, SHC founder Margaret Elliott was picking up the top prize and overall award – as the UK's outstanding social enterprise - in the Social Enterprise Coalition's Enterprising Solutions Awards, sponsored by the DTI, NatWest and Royal Bank of Scotland.

One aim of this paper is to explain why and how SHC manages to provide a standard of care that seems to elude so much of the elder care sector. A lot of that explanation is to do with SHC's co-owned status – staff own the company, they take decisions together and they feel more part of and proud of the enterprise than counterparts in companies where there's no staff stake or say.

So another aim of this report is to show national and local policy makers why the co-ownership model has so much to offer public services. In the next decade it seems inevitable that more and more public services will be provided by external – as opposed to 'in-house' – teams and their non-public employers. Public services need to be delivered by staff who feel heard by and engaged with the business they work for, proud of it and its reputation. They will do a better job if they feel well trained and able to voice their ideas for how to serve customers better.

One example can't provide conclusive evidence, but the Sunderland Home Care story does at the very least suggest strongly that the co-owned business model is exceptionally good at creating the combination of dedication, skill and care that users of public services are entitled to expect.

In fact, the Commission's 'Time to Care' report itself drew attention to Sunderland Home Care in a special section showing examples of excellence. As the report says, "The agency is able to pay staff a very competitive wage, compared to most other local independent sector agencies, as all of its profits and finances are kept internal to the company."

The report went on to pinpoint the factors that allow SHC to offer exemplary standards of care: "Care workers told us that owning shares in your workplace was a real bonus…other staff talked about the feeling of having a stake in the organisation:

"Here we can suggest training we want to do, come up with new ideas for how to run things. You feel like you can really do it, that you will be listened to, you get taken seriously here….not like most of the places where I've worked."

The Commission's report noted in concluding that SHC had now established an advisory body – Care and Share Associates [CASA] – to help spread the model to other areas and already produced co-owned spin-off home care agencies in Newcastle, North Tyneside and Manchester.

Another account of why co-owned public service works comes from the Enterprising Solutions Award citation for SHC. The company, it says, 'is structured so that people will always come first. As an employee-owned social enterprise, staff members get a vital role in the decision making process'. The result, as the citation put it, is that 'any financial surplus is utilised on providing a better service or towards rewarding all staff.'

The Employee Ownership Association urges policy makers to look harder at co-owned business as a solution to the provision of public services.

Patrick Burns
Executive Director
Employee Ownership Association

Introduction

I have written the paper at this time for several reasons. Firstly to show how an employee owned enterprise can be set up and survive in the present environment of huge corporations and a global economy. Second, how one individual can be an inspiration to a project's success by allowing her own enthusiasm and entrepreneurialism to rub off onto her colleagues and peers and encourage others to set up similar enterprises. Lastly to show policy makers why the co-owned home care is worth supporting, encouraging and promoting as a much needed model of good practice.

Sunderland Home Care Associates is a successful company whether you look at it as a worker co-operative, social enterprise, employee owned business or a conventional private company.

Since its launch in 1994 the company has:

- increased its staff from 20 to 210
- increased its workload eleven-fold
- reached an annual turnover of over £1.68m with a healthy pre-tax profit
- a comprehensive training programme available for all its employees
- passed 17.4 % of its shareholding on to its employees over the last five years - leaving the remainder in collective ownership through a co-operative and employee trusts
- diversified into domestic care, disabled student support at local colleges and university, help for families with disabled children and cover for care homes
- set up - under the umbrella company Care And Share Associates (CASA) - and mentored three replica companies in the North of England

What is perhaps more remarkable is that all this has been achieved not with the authoritarian style of management of, say, an Alan Sugar or a Gordon Ramsay but by a culture of collectivism and a participative style of management and ownership.

SHC creates a feel-good environment for everyone concerned – it has proved…

- Good for the cared-for clients' well-being because it allows them to stay in their homes for much longer instead of being admitted to a residential care home (provided of course that is their wish)
- Good for the community and local economy because it's more expensive to place people in care homes than allow them to continue living at home in their own environment
- Good for employment in that it provides meaningful jobs for people who live in an area of high unemployment and deprivation
- Not least, good for the employees themselves in terms of a second source of income through share ownership, self-esteem, confidence and career development

Many successful companies are born out of a chance combination of people, events, circumstances, seized opportunities and some would say fate. SHC is one of those businesses.

Like all good stories there are strong characters running through the plot. This story is a tribute to the dedication and single mindedness of the main character: Margaret Elliott.

We need to start many years before the conception of SHC in the then town of Sunderland. In the 1970's fate brought together a building co-operative aptly called Sunderlandia and a young mother with two children contemplating what to do with the rest of her life after coming to terms with the loss of her mother.

Sunderland, now a city straddling both banks of the River Wear estuary, was a large port in the 18th century exporting mainly coal from the local coalmines and later in the 19th century became the greatest shipbuilding centre in the world with some 65 shipyards on the river. As a measure of its prominence the harbour was designed and built by the eminent Victorian engineer Isambard Kingdom Brunel.

Both the coalmining and the shipbuilding have long gone but because of the social deprivation this created, over the past years the city of Sunderland has attracted UK regional grants and latterly European money to regenerate the region. However even accounting for investment like the new Nissan car factory, Sunderland still suffers from one of the highest unemployment rates in the UK. Around 10% of the male population was unemployed in 2000, 5% above the national average. This, coupled with an ever-increasing proportion of elderly people, made it an area struggling to service its own internal economy. It was this environment, where community projects and collectivism seem to flourish, that produced a hotbed of social enterprises and worker co-operatives.

One such enterprise to emerge was Sunderlandia – the product of three individuals' search for the 'ideal place' to start a builders co-operative. The enterprise was the brainchild of Robert Oakeshott, Peter Smith and Mick Pearce.

A local building worker, Peter Elliott, started work for Sunderlandia in 1974, but the main character of this story is not a member of the Sunderlandia but Peter's wife Margaret Elliott. Margaret's interest in co-ops was awakened when her husband brought home the Memorandum and Articles of Sunderlandia. She casually read them and thought to herself "yes this feels instinctively right". It was the way that the organisation was run that really attracted her; every member (irrespective of status) having a say in the running and decision making of the company.

Over the years Margaret and Robert Oakeshott, who was later to found the Employee Ownership Association, became great friends and colleagues. Margaret as a practitioner and Robert as an intellectual and ex-Financial Times journalist complemented each other as they began to develop thinking about the possibilities of employee owned business.

Dave Wheatcroft
August 2007

Making a start

If it was not for these two main people - Margaret Elliott and Robert Oakeshott – SHC would never have been established and yet their background and upbringing couldn't have been further apart.

Margaret Elliott was a true Maccam (a native of Sunderland), born into a working class family of three brothers and one sister; her father a bus driver. Margaret grew up in the warmth and protective family atmosphere that was very much the norm in that era.

Robert Oakeshott in contrast had a privileged upbringing. His father was an Oxford don, and Robert enjoyed a public school education and studied at Balliol College Oxford. Before Sunderlandia, Robert had spent some time at the Sunderland Echo before moving to various jobs around the world, mainly in Africa.

Although Sunderlandia is not directly involved in this story it is worth spending a little time on it as it was not just any old building co-op. Its early income came from grants to upgrade the "Sunderland Cottages" by building bathrooms and inside toilets. But it was not just its democratic and participative style of management that was different - it also had an intensive training programme where four or five apprentices were assigned to one tradesman. After the work on the cottages ran out along with the grants the co-op was forced to revert to a more conventional training programme and it eventually closed several years later, though lessons were learnt from the Sunderlandia experience.

Community shop

Margaret was a young mother who would have found difficulty getting conventional work because of her very young children, and she had friends in the same situation. With the encouragement of Robert these women formed the idea of a community shop. As they lived in the environment they had a better idea of what local people wanted. They would sell small portions of provisions to pensioners to help people budgeting on a day to day basis, and would have seats in the shop for mothers with young children.

It took two years for Little Women Ltd to get off the ground mainly because of the need to raise the £8,500 to buy, convert and stock the shop. Because they had no capital or recent employment record they had to get their husbands to act as guarantors for the loan. They picked a property that had an upstairs that could be used as a crèche for their children.

Little Women Limited was such a democratic organisation that every woman took turns doing the various tasks from cleaning, child minding, serving in the shop and doing the books.

The women held fortnightly business meetings to assess its progress and even though the co-op has now ceased trading these meetings have carried on through the years to this day, although they are now more of a social nature.

After nearly four years the decision was taken to sell the shop, the takings had stagnated and the women's circumstances had changed as their children grew up. They repaid the loan with the proceeds and went on to do other things as individuals. Margaret chose to go to college and gained a diploma in community and youth work,

Home care move

In 1982 Peter Smith (another Sunderlandia founder) asked Margaret if she would consider starting a home care co-operative. She contacted her Little Women co-founders, who were eager to work again in a collective democratic environment and so they set up Little Women Household Services (LWHS).

Their clients were people who could not get home helps but still qualified for 'Additional Requirement' payments from the then Department of Social Security (DSS) to cover the cost of the Little Women's services. The women firstly went on a training course and then went looking for clients in Over 60's clubs and using leaflet drops.

However after one successful year Margaret left and took a job at the Princes Trust (a charity set up by the Prince of Wales to develop youth enterprise in deprived areas). When the Government withdrew the additional requirement payments, LWHS slowly ground to a halt and was wound up in 1986.

Care in the community

During this time Robert had developed his thinking on co-ops and while still promoting the collective ideals, he had been introduced to Louis Kelso's Employee Share Ownership Plan (ESOP) legislation that had been passed through the US Senate by Senator Russell Long. Robert's conclusion was that an employee owned share-based company was the way forward.

In 1979 Robert became a founder member and executive director of Job Ownership Limited – now the Employee Ownership Association - an organisation that promotes employee ownership. Early members included the John Lewis Partnership, Scott Bader Commonwealth, Baxi Partnership and Tullis Russell.

The then Conservative administration commissioned a report in 1988 by Sir Roy Griffiths on the subject of 'Care in the Community' in response to the ageing population and the fact that families were more fragmented due to younger members of the family moving around to find a better life – a process that had increased demand for care services over some years.

The main conclusion of the Griffith report was that the local authority social services departments should introduce competition for some of their services (privatisation by any other name). The Government's response was a Care in the Community Bill.

The birth of SHC

The Griffith 'Care in the Community' Report caught Margaret Elliott's attention as a real opportunity to use her experience from LWHS and set up another worker co-operative to provide a home care service and fill the gap created by the outsourcing of services.

At an early stage the Government made it clear that each local authority would be responsible for the introduction and implementation of the proposed Act and that special transitional grants would be available to encourage alternative providers.

This policy allowed Sunderland Council, whose political persuasion was well left of centre, to decide that any outsourcing of social services would go to the not-for-profit sector.

New York example

Meanwhile, Robert Oakeshott's role as executive director of JOL had made him aware of home care co-ops in the USA. Under the organisation's commitment to promoting employee ownership JOL organised and financed a trip to study home care co-ops In New York, Philadelphia and Connecticut for Margaret and Robert's colleague, Rachael Sloan [author of the JOL study in 1996 'Co-operatives in Community Care].

The visit made Margaret more determined and confident that she could make a success of the opportunity that seemed to be opening up in the UK. She was particularly impressed by the Bronx co-operative - based in a worse economic environment than Sunderland.

Perhaps the main lesson to come out of the visit was that substantial kick-start funding would be needed in order to set up a home care co-op, with continued support both financially and morally in the first few years.

Home care bid

On her return to Sunderland Margaret approached Sunderland Social Services Department (SSSD) with her outline ideas of a home care co-op - winning backing thanks to her background in LWHS and the Council's policy of encouraging not for profit providers.

In 1993 Sunderland Social Services advertised for expressions of interest and from over 100 responses the new co-operative was one of seven preferred companies chosen. She picked the name Sunderland Home Care Associates as a compliment to and with the blessing of the New York Bronx co-op.
JOL helped Margaret to draw up a business plan, Sunderland Common Ownership Enterprise and Resource Centre (SCOERC) helped with the finance for business registration, the Tyne and Wear

Foundation gave a grant of £12,000 for capital items, Sunderland Social Services Department made a "transitional grant" of £10,000 and also agreed to a pre-payment of £22,000 to help with the cash flow. Eighteen care workers were recruited from the unemployed in order to access return to work and training funding.

Social Services agreed to a weekly 450 hours at £6 per hour for the start up contract. Margaret recruited Shaun Jackson as the co-ordinator and the co-op started trading on the 4 July 1994.

SHC is a company limited by guarantee that uses the memorandum and articles of the former Industrial Common Ownership Movement's (ICOM) so-called Blue Rules. These state that if the co-op is wound up its assets have to be passed onto another co-op (and not shared amongst the members) and that in the case of liquidation each member has a liability of £1. This contrasts with the American home care companies where employees had to invest $1,000 (deducted from pay) to become members. Little wonder then that the take up was only 70% compared with the 100% take up of SHC

The co-op phase

From the start SHC's set-up was as democratic as possible and although the co-op had only two directors (Margaret Elliott and Shaun Jackson) every member had one vote on decisions and there were monthly meetings of all the members. Employees who started afterwards had to serve a 6-month vesting period before they became eligible for co-op membership. After a few months an election for six employee directors took place. Margaret and Shaun stood down but were re-elected along with four other members of the co-op.

Every year there is an election for two of the directors who are required to stand down, ensuring continuity on the Board. There is no limit to how many times a member can stand for office, and no payment for the position though reasonable expenses are reimbursed to enable the member to carry out their duties.

The core service SHC carers provide is to assist older, frail and disabled people in their homes, allowing them to stay there as long as possible. Typically the tasks include getting the client up, washed and dressed; giving them breakfast and clearing away and leaving a flask and sandwich for dinner. In most cases they would return in the evening and put them to bed. Bathing and toileting are also tasks that carers help with.

Joining one of SHC's carers, Terry Wright, on his round, to familiarise myself with the service, was the most enlightening and humbling day of my life. I saw some of the most vulnerable people in our society being so reliant, dependent and yet so confident in their carers.

Following the initial training every employee is encouraged to continue relevant training to enhance and develop his or her career. National Vocational Qualifications (NVQ's) are the main standards of competence and some 96 people have attained NVQ level two with a further 21 working towards it - out of a total of more than 120 carers, ten have attained higher levels of NVQs.

SHC is well ahead of the Government's target of working towards every carer in the country attaining NVQ level 2 by the year 2010. However there are specialist courses for things like disabled student support, food hygiene, first aid, health and safety, abuse awareness, moving and assisting and grief and loss – all required for the relevant positions.
Wherever possible, external funding is used for training purposes. If this cannot be found, SHC is committed to provide funding and training from its own resources. This commitment to training has raised standards and SHC's reputation. Over the years they have certainly reaped the benefits of this.

Trade unions

The relationship with the trade unions is interesting. At the outset Margaret was aware that SHC carers could be seen as taking the jobs of existing, highly unionised Social Services personnel. So SHC arranged for every employee to join the relevant union (Unison) and paid their contributions for the first year. However after twelve years of staff departures and arrivals, Margaret and Shaun Jackson are the only remaining union members.

This seems to be because, given the fair manner in which all employees were treated, the traditional role of unions as perceived by most people was generally not needed. This, and the fact that the carers were paid the low wages that exist throughout the industry - although better than others in the industry – may have meant that they didn't think they were getting value for money from union membership, and so either withdrew or never joined a trade union.

Continued growth

Over successive years SHC has increased the total hourly contract from 450 to more than 4,600 hours, from 20 to over 200 employees, from £140,500 turnover to £1.7m and from £7,000 pre-tax profit to £170,00. Profits would be significantly higher without the company's commitment to staff training – markedly greater than most other firms in the sector.

Figure 1 – Annual Weekly Hours Worked

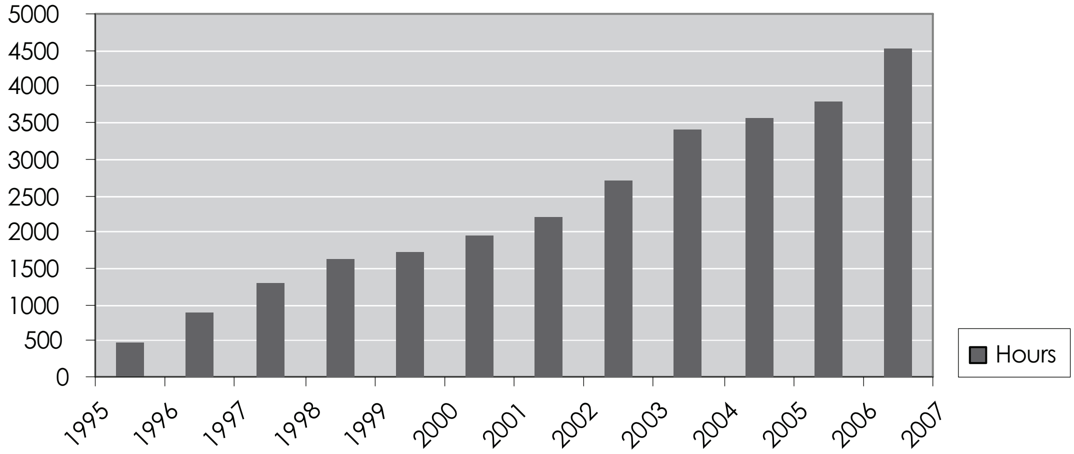


Figure 2 – Number of employees

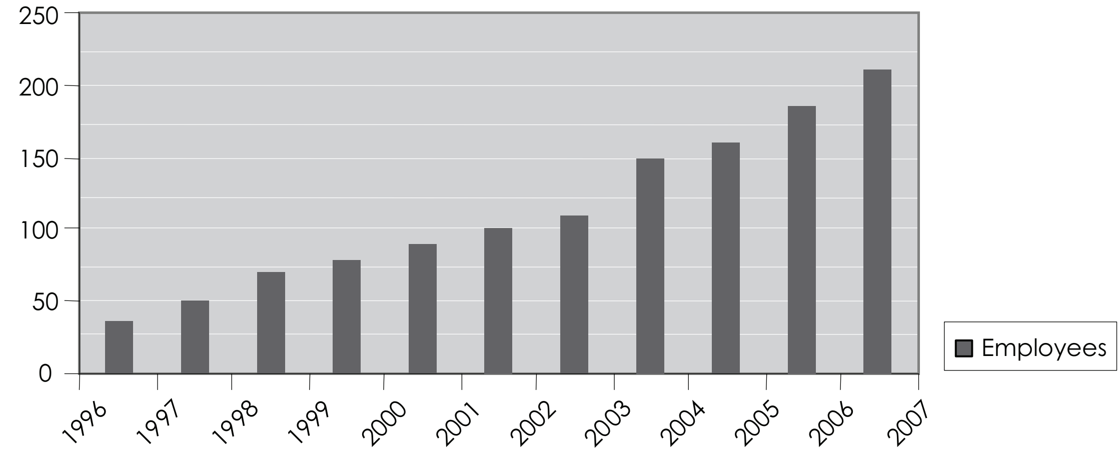
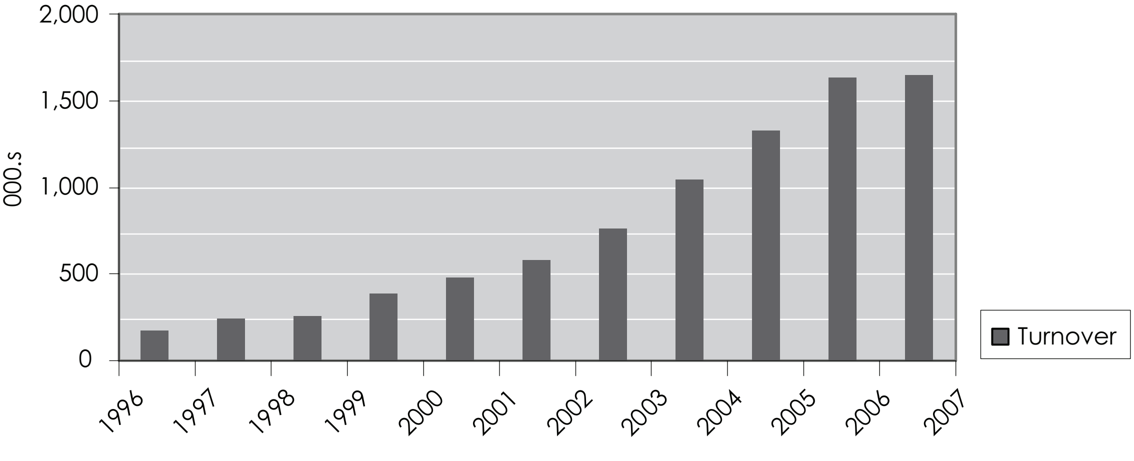


Figure 3 – Annual Turnover



The consistent growth of SHC business meant that the company management structure needed to develop.

Margaret is general manager/executive director – though to all staff she's simply 'Marg'. Her role, apart from overseeing the operation, has been to negotiate and liaise with social services departments, to assess cases, interview for new starters and disciplinary issues. Some of these tasks have now been delegated which not only takes some of the weight off Margaret but also allows other people to develop, take greater responsibility and so develop their careers.

It was not uncommon in the early days to see a lot of multi-tasking where someone would start the day as a carer, work in the office in the middle of the day, go back to the client and finish the day as a carer again.

Switch to employee owned company

I became involved in SHC in 1999 after knowing Margaret Elliott for a few years mainly through our positions as directors of what was then Job Ownership. It was Margaret and Robert Oakeshott who invited me to Sunderland to discuss employee ownership status with the SHC board of directors.

The co-operative was becoming a victim of its own success and Robert Oakeshott's original proposal for employee owned business status now seemed more acceptable.

Why no longer a co-op?

There are significant differences between a worker co-op and other kinds of employee owned business. The former will frequently, though not always, have a different legal status and must conform to the seven principles of co-operation. Shares in the company will be equal, and decision making reflects the equal-share principle.

Apart from the fact that working for a co-op gives you a sense of ownership but less real material proof or ownership rewards, an issue for SHC was that it was consistently generating a modest surplus that was building up and because there was little need for capital expenditure it was just sitting in the bank as a reserve fund. At the same time the members were looking for extra reward and management were concerned about the poaching of highly trained staff tutored by their own internal but expensive training scheme. Finally the company was becoming increasingly aware of the need to use surpluses in the most tax efficient way.

After a series of meetings between the board of SHC and me, we established several principles broadly based on tried and trusted methods used in then Job Ownership member companies. They were:

- That only employees can hold shares and if they leave the company they are required to sell their shares back to the SHC's employee benefit trust
- The majority of shares will always be held collectively, in keeping with co-operative ideals
- No employee can hold more than 2% of the total shareholdings

Graeme Nuttall, tax partner with Field Fisher Waterhouse and managing director of its Equity Incentives subsidiary, then firmed this up into a legal document. Graeme is a national authority on the tax treatment of employee ownership and legal adviser to the Employee Ownership Association.

However in order to qualify for then Inland Revenue (IR) approval to run a share scheme that would transfer some of the shares to the employees we established a share-based company [to act as the operating company] and two Trusts (both approved by the IR) in 2000-2001.

- First we established an independent **employee benefit trust** [EBT] that would hold the majority of the shareholding in SHC.

  As the name implies SHC employee benefit trust holds shares for the benefit of present and future employees and every employee has one vote - making it in fact more democratic than a co-operative where only members of the co-op have the right to vote.

  As the major shareholder SHC's EBT acts as a supervisory board over the operating company and is governed by one management, five elected employees plus three outside trustees. The outside trustees are chosen by the existing trustees.

- The second Trust is a **profit share trust** (SHC PST), this trust acted as a holding trust for shares that are held during their retention period under the rules of the share scheme.

The mechanics of the conversion are spelt out in Appendix 1. Although there really wasn't any need to keep the co-op as a collective ownership tool - as this role was now taken over by the EBT - it was in fact kept for two reasons. Firstly because it was felt that the Inland Revenue would accept the conversion more easily, and secondly it was a comfort for the employees and in particular Margaret Elliott, who was used to and felt secure in the co-op system.

The idea was to gradually pass the collective ownership from the co-op (SHCA) to the EBT by a policy in which when shares are needed to "feed" the employee share scheme they would be purchased from SHC and where there was a need to sell the shares, as when employees left the company, they would be purchased by the EBT.

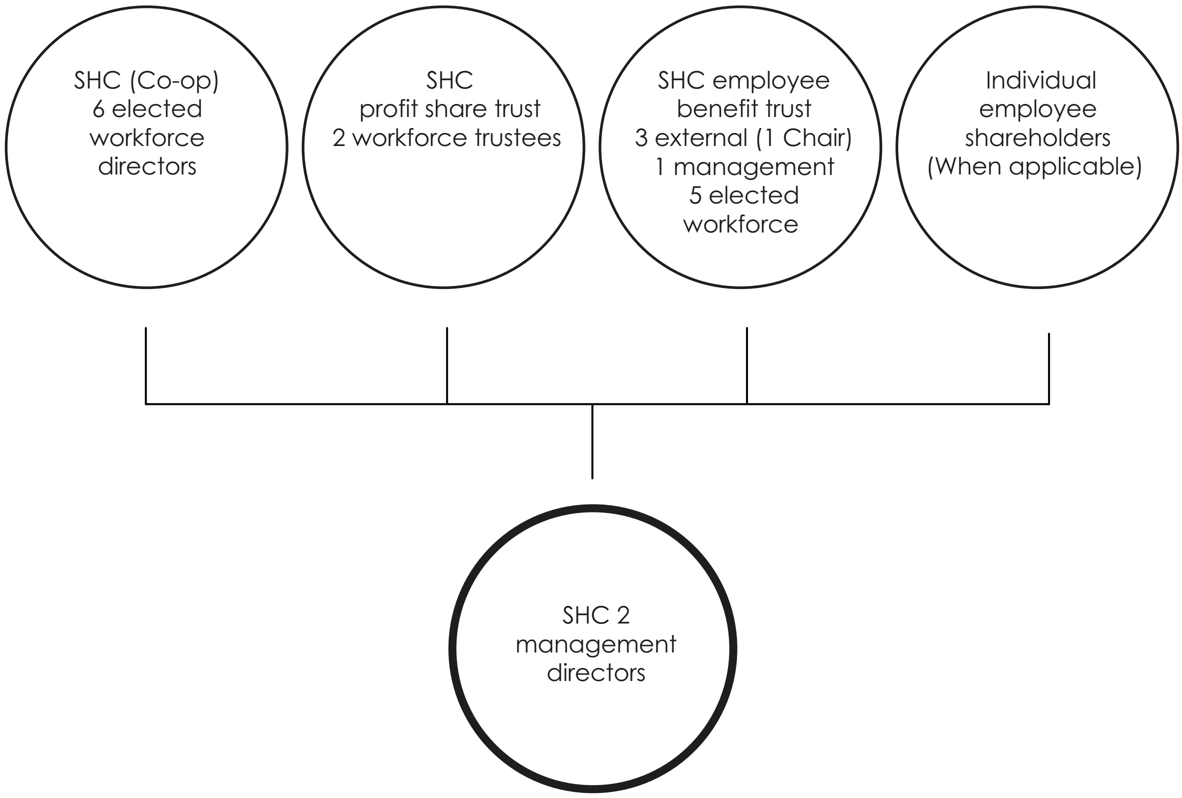
Although it would take a number of years to transfer all the collective owned shares from the co-op to the EBT and so eventually close the co-op and simplify the model, this was not seen as a problem or detrimental to the ownership model apart from the fact that there would be a little more administration work and a duplication in employee governance representation.

Democratic governance

Before the employee share ownership element, the co-op version of SHC was the sole owner and therefore quite rightly controlled governance, but a transfer of ownership had to involve a transfer of democratic employee control.

In the past the employees controlled SHC (the co-op) via one member one vote and represented by six elected directors. But with the employee benefit trust now the major shareholder the company's governance needed to reflect this - as shown below.

Figure 4: SHC governance



Because the SHC PST Trust is not part of the democratic structure, (the shares are in transition and are voted in proportion of the EBT shares) there are only two trustees who make sure the trust is administered according to its rules.

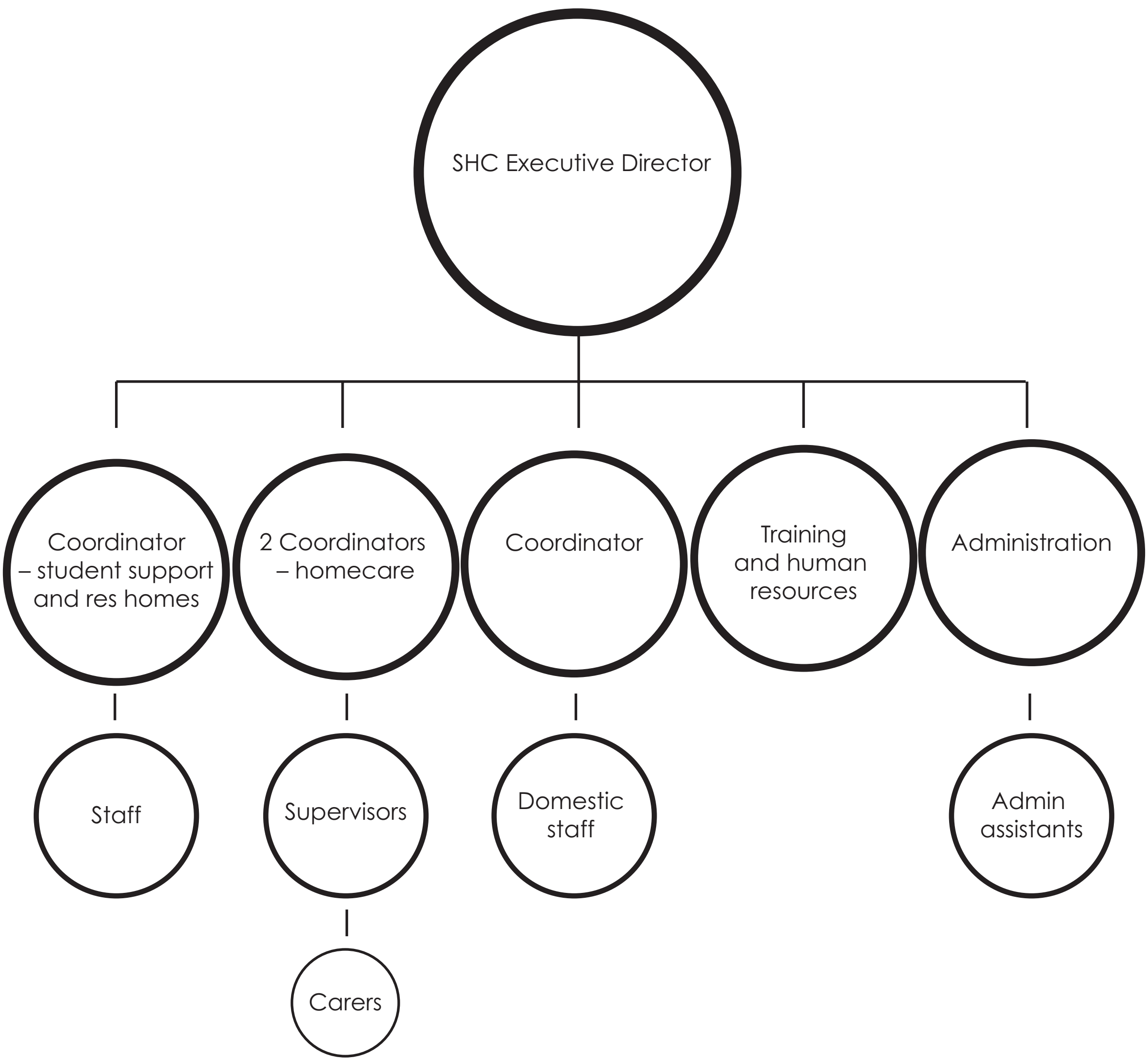
The employee benefit trust has one member of management, five elected employee and three outside non-executive trustees to add outside experience to the trustee board.

The model means managers have the right to manage on a day-to-day basis but are responsible to the EBT as the major shareholder. There are safeguards for the employee owners as there are 21 specified areas in the Articles of Association of SHC where the board must get agreement of the trustees of the EBT - for instance limits on capital expenditure, buying another company, issuing new shares and so on.

The safeguard for the employee owners is further strengthened by the ruling that at least three employee trustees must support any resolution presented at the EBT before it can be passed - giving employees ultimate control of the company while recognising that a professional management team is needed for the company to progress and succeed.

The management of the operating company (technically known as Sunderland Home Care Associates 20/20) is run the same as a normal company, see below.

Figure 5: SHC management structure



Shares and tax

SHC has made use of various share schemes to achieve the ownership structure it wants – and exploited tax advantages created by successive Governments. There is helpful information about share schemes and tax rules at www.hmrc.gov.uk/shareschemes

Under now defunct legislation we used the Inland Revenue Approved Share Scheme (APS). This allowed companies to pass ownership to the employees by the means of shares in a tax-efficient manner that benefited both the employer and employees.

Every eligible employee was invited to join the scheme. Out of the pre tax profit, 'free shares' were allocated using a formula agreed with the EBT trustees. The shares are then held in trust (SHC PST) for a period of three years before they are redeemed and given to the employees free of income tax. The shares can be redeemed after two years but income tax has to be paid on them by the employee.

In 2002 new legislation was introduced and the APS scheme was discontinued and replaced by a Share Incentive Plan [SIP].

The Free Share module of SIP is similar to the APS where employees have to sign up to the scheme. However, the retention period is 5 years for tax-free shares and 3 years for taxable shares. There are other differences that are optional but SHC did not exercise them, as they wanted to mirror the APS scheme as much as possible.

The ownership breakdown at mid-2007 was as follows:

- SHC itself owns 26.5%
- The SHC employee benefit trust holds 56.1%
- The company's profit share trust holds 3%
- The SHC Share Incentive Plan [SIP] has 14.4%

In January 2001 we used the Approved Profit Share scheme (APS) for the first allocation of shares to the employees. SHC made a gift of some of its pre-tax profit to buy shares from the Employee Benefit Trust (EBT) at the current share value. These shares were then allocated to eligible employees using a formula that reflected both previous earnings and service. The allocated shares are then held in the Profit Sharing Trust PST for the retention period of up to 3 years.

A second allocation of shares was made to employees in November 2002 with two differences, we purchased the shares from Sunderland Home Care Associates (the co-op) and we only reflected the previous earnings in the allocation formula.

In June 2004, using the new Share Incentive Plan (SIP) legislation, we had a third allocation of shares using the previous formula and further allocations were made in February 2006 and March 2007. These shares were held in the SIP Trust for the retention period, bringing the employees individual shareholding to 17.4% of the total.

Figure 6: Price per share

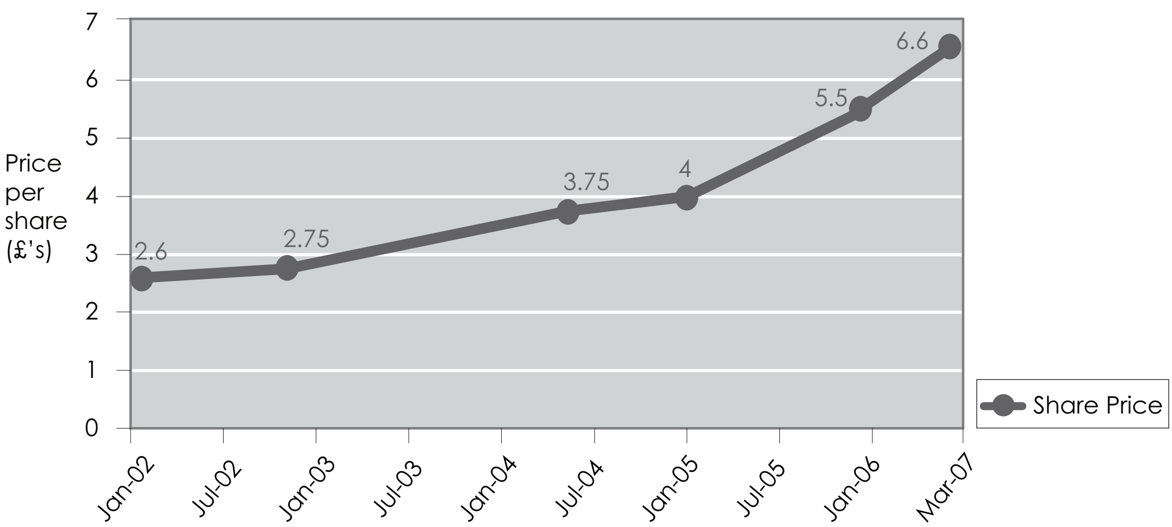
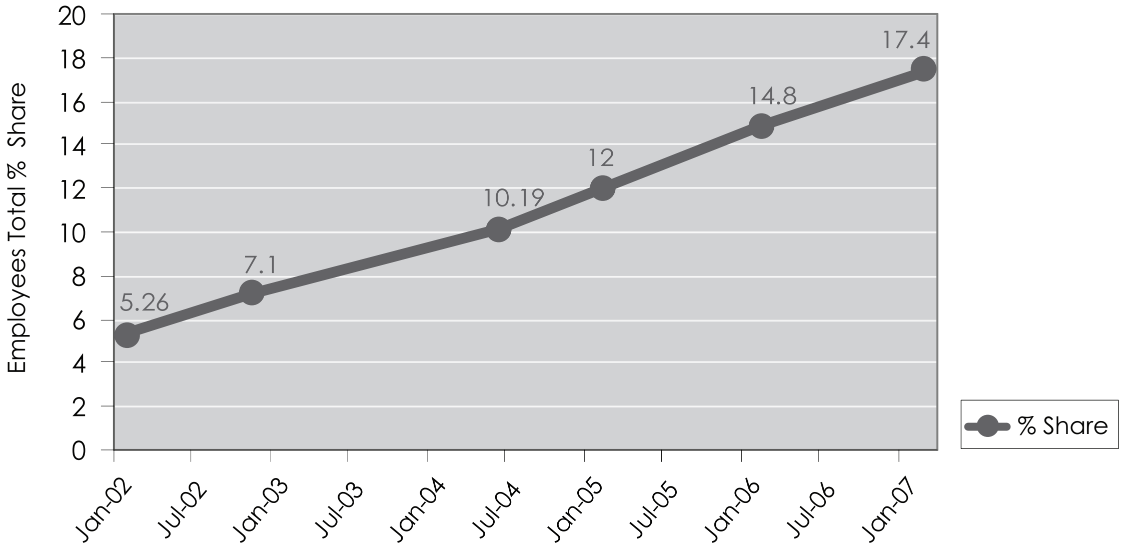
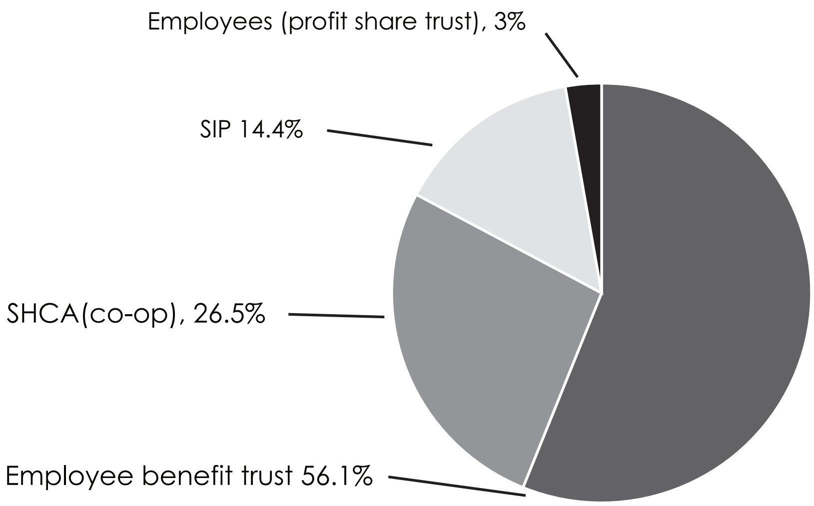


Figure 7: % of Share Capital held by staff Individually*



*remainder held by staff collectively

Figure 8: % Shareholding – March 2007



The present level of free shares held by individuals ranges from 10 for newly eligible employees to 419 for the longest serving, high earning employees. In some cases this has been enhanced by buying shares in the RISM. All these shares were valued at £6.60 per share in May 2007 so you could say shareholding varies from £66.00 to £2,765.00 in financial terms.

How tax concessions help

Tax concessions are frequently used by Government to make certain policy initiatives work. An example of this in recent years has been the sale of local authority owned council houses, where the Government of the day forced the local councils to offer huge discounts to the sitting tenants to buy their houses. The success of this policy ensured that the UK became more of a home owning society.

Another example is the special transition grant offered to local authorities to ensure that the Care in the Community legislation was a success.

Both employers and employees have enjoyed concessions to promote employee share ownership from successive Governments over the past few decades.

One of the main tax concessions was that owners could make gifts to employee benefit trusts out of pre-tax profit - making it much easier for owners to sell and for employees to buy the company. Unfortunately due to abuse - not I might add by employee ownership interests, but by companies using it as a way of paying tax free bonuses to employees - the provision was stopped. The effect of stopping the concession was to throw the baby out with the bath water. Genuine employee benefit trusts were penalised along with and because of trusts set up with tax abuse in mind.

Luckily SHC managed to take advantage of this concession before it was closed and made pre-tax gifts to the EBT so it could become and remain the majority shareholder. Using the Corporation Tax rate of 19% this produced a significant tax saving for the company.

SHC also took advantage of Revenue regulations allowing gifts to the SHC PST and to the SHC SIP schemes – together saving close to £35,000.

If employees leave their allocated shares in the share trusts (PST and SIP) for the full retention period (3 years and 5 years respectively) there is no Income Tax or National Insurance Contributions (NIC) liability.

In SHC, because of the nature of employment (part-time and relatively low wages), people will be paying different levels of tax, if any at all. This would make it difficult to measure the level of tax savings for employees but if you use the level of the standard tax rate of 22p in the pound and a NIC rate of 9% you could argue that SHC employees have enjoyed significant potential tax concessions.

However, setting up the model by introducing an EBT and a share scheme is a specialist field and therefore quite expensive, whilst in addition there is the extra administration work and expense of running a share scheme.

It has to be said that if any employee takes shares out of the share scheme - as they are entitled to do after 2 or 3 years respectively - there would be an Income Tax liability (except in the case of death).

If SHC staff leave they have to sell their shares but the company allows them to keep their shares until they are free of tax liabilities. The effect of this strategy has meant that no one in the company has been liable to pay tax on their shares.

The other possible tax liability is the increase in value of the shares from when they were allocated to when they are sold. But Capital Gains tax has an annual allowance which presently stands at £8,800. No SHC staff has been liable for tax under this provision either.

Running an internal share market

In January 2005 employees were entitled to their first share redemption from 2002 but according to the rules of the company only employees can hold shares in SHC and cannot sell them while they are employed.

However the trustees were aware that employees had seen people who had left and had their shares sold and paid out in cash and the last thing we wanted was for people to leave just so they could cash in their shares. We also recognised that there were times in a worker's life when they might need to cash in their locked-in assets. In order to address these issues the trustees agreed to introduce a Regulated Internal Share Market (RISM) which would mean people could sell some or all of their shares or buy some if they wished. Although there was no commitment it was envisaged that this would be an annual event.

The RISM ran to strict rules and all the trading had to go through the EBT at the latest share price. The employees who owned shares were asked if they wished to sell any or all of their shares and every employee was asked if they wanted to purchase any shares. The number of shares trading was matched and if there was any imbalance the trustees would decide if the EBT wished to satisfy all the participants by either selling more shares if there was a shortfall, or buying shares if there was a surplus.

If the Trustees did not wish to take up the imbalance the shares would be allocated on an equal basis as opposed to a percentage basis. For example if one person wished to buy 50 shares and another 100 shares but there were only 100 shares to sell then they would be allowed to buy 50 each and the same applies if the imbalance was for sellers.

In order to make the shares easier for employees to buy they could have the payment stopped out of their wages in equal payments up to six months.

There was a fear from the trustees that because of the relatively low wages and number of part time workers most of the employees might rush to sell all their shares, but in the event that didn't happen and we were all pleasantly surprised with the outcome.

Building on the SHC model

With all the systems running smoothly and the contracts of Sunderland Social Services Department (SSSD) set annually it was felt that if SHC wished to grow significantly it would need to diversify. At first we took a few private home care clients. Because it was only a small increase in the workload and was the same service it was absorbed quite easily into the set-up.

The feedback from carers was that some clients needed domestic home helps so we decided to go for growth in the domestic market. We therefore created a post for a Domestic Care Co-ordinator who would take responsibility for all domestic care packages and would encourage continual growth in this area. Domestic tasks included general housework, shopping, laundry, collecting pensions and so on. The local Social Services department was happy to allocate a contract to do this work. The domestic arm of the company currently employs two co-ordinators, a supervisor and around 35 care staff.

SHC also started working with local colleges and the University to provide support for disabled students. The day sometimes starts with the care aspect and then the 'supporter' will accompany the student through their studies to offer support depending on the disability but can include reading, writing and things like photocopying that the student finds difficult to do. This is a special task and special training has to be given. Needless to say it pays a little more than caring. For SHC it means another income source and indeed enhanced revenue per hour. At present this work is worth 23 jobs and an extra 700 hours to the company and another coordinator was employed to look after this department.

We have a few cases of support for families with disabled children and we also provide cover for care home carers as and when required - when we have the available staff.

Exporting the SHC system

Over the years the success of SHC has created interest and admiration both in this country and abroad and it is this interest that led the trustees and especially Margaret Elliott to look for a way of passing on the success to others.

We rejected the idea of expanding out of the Sunderland area or setting up subsidiary companies – instead opting for starting up and mentoring stand-alone companies that would be based in the North of England simply for logistical purposes. An umbrella company, Care & Share Associates (CASA), was set up with Margaret Elliott and Shaun Jackson as the initial directors to make this happen.

North Tyneside Social Services showed early interest in setting up what's termed a 'replication' company and North Tyneside Home Care Association (NTHCA) was formed as the first project. There was a need to keep start up finances to a minimum so we started with a simple ownership model that would develop as the operating company became established and moved into profit.

CASA holds 10% of the shareholding of North Tyneside Home Care Associates (NTHCA) the operating company and the other 90% is held by an interim Employee Benefit Trust (NTHCA EBT). There was a commitment for a full employee benefit trust (modelled on SHCEBT) to be established within 2 years when it will replace the interim EBT. A SIP Trust and Scheme will be introduced when NTHCA makes consistent profits.

It was envisaged that all new companies will be based on this model but as we have progressed there has been slight variations but the basic principles remain.

Both Newcastle Home Care Associates (NHCA) and Manchester Home Care Associates (MHCA) are up and running and should break even in the first year while for logistical and time factors South Tyneside (which was planned to be a separate company) was incorporated into SHC. More than 150 jobs have been established in the three CASA companies since the latest, in North Tyneside, was started some two years ago - a record any organisation should be proud of. Two more companies are in the setting-up stage.

The future

The future holds both opportunities and problems. We intend to develop the replication programme further and this will mean greater commitment to CASA for Shaun Jackson, Margaret Elliott, Guy Turnbull and me.

SHC has a potential problem looming because Sunderland Social Services Department (along with many others) are withdrawing funding for domestic work. This will affect 35 jobs and 850 hours, however we are working hard to keep a number of clients on a private basis but there will have to be a retaining programme to safeguard the other jobs.

It will be interesting to see how an employee owned company handles this sort of issue but I am confident it will be done with the same human element that has been a hallmark of SHC in the past.

Conclusion

In conclusion I think it is fair to say that if it was not for Margaret Elliott there would be no story for me to tell. Her experience, knowledge and enthusiasm were vital to the formation and success not only of SHC but the replication and other companies that have followed the model. If I could describe her and put a label on her it would be that she is an entrepreneur with a social conscience and then some. Margaret often describes her passionate character as a contagious disease that she passes on to the people around her. This has enabled her to build a team of loyal co-workers around her. Like many others, I have caught Margaret's dose of enthusiasm and am proud to say I can claim to have made some contribution to the success of her companies.

Epilogue

No words need to be added to this letter from a client

> "Dear Home Support Team
>
> "I wish to thank everyone who helped with the care of my late mother, Marion Ottey. Special thanks to Angeline and Angela without them I wouldn't have been able to keep my mother at her own home. My mother loved and trusted them. They made her laugh and made her life a little easier.
>
> "I shall be forever grateful to them.
>
> "Thank you so much
>
> "Kathleen Boddy"

APPENDIX 1

Glossary of terms

CASA [Care and Share Associates]: The umbrella company formed to create and mentor the companies in the SHC replication programme.

CHCA [Co-operative Home Care Association]: The New York based Home Care Company that inspired Margaret Elliot to create SHC.

EOA [Employee Ownership Association]: the new name for Job Ownership Limited. EOA is the voice of co-owned business in the UK.

HMRC [Her Majesty's Revenue & Customs, formerly Inland Revenue]: The government department responsible for approving and monitoring employee share schemes.

ICOM [Industrial Common Ownership Movement]: an organisation supporting worker co-ops in the UK and now part of Co-operatives UK.

JOL [Job Ownership Limited]: Now the Employee Ownership Association.

LWHS [Women Household Services]: The forerunner home based co-op of SHCA.

NTHCA [North Tyneside Home Care Associates]: The first of the SHC replication companies. It is based at North Shields.

NHCA [Newcastle Home Care Associates]: The second of the SHC replication companies.

RISM [Regulated Internal Share Market]: The mechanism that enables employees to sell shares without leaving the company, it also allows other employees to buy these shares

SHCA [Sunderland Home Care Associates]: - The founding co-op that is a company limited by guarantee, operating under the 'blue rules' of ICOM.

SHCA 20-20 [Sunderland Home Care Associates (20-20)]: The operating company introduced to enable the conversion to a share based company.

SHCA 20-20 EBT: The Employee Benefit Trust that holds Shares and money for present and future employees of SHCA.

SHCA 20-20 PST. The Profit Sharing Trust that held shares that were allocated to the employees of SHC under the Inland Revenue Approved Profit Share scheme.

SHCA (20-20) SIP: The Share Incentive Plan Trust that holds shares that are allocated to the Employees of SHC under the Inland Revenue Share Incentive Plan.

SSSD [Sunderland Social Services Department]: The local Authority department responsible for (among other things) the provision of home care in the Sunderland area.

Sunderlandia: The Sunderland building co-op that first sparked Margaret Elliott's interest in the ideals of collective ownership and worker participation.

APPENDIX 2

The mechanics of transferring ownership

The ownership model was set up with SHCA the co-op, SHC the share based company, SHC employee benefit trust and SHC profit share trust later to be replaced by the SHC share incentive plan

SHCA transferred its operations to SHC in exchange for its shareholding

SHC made a gift to the EBT

SHC created more shares and sold them to the EBT to make it the majority shareholder

The working of the employee share scheme

SHC gives some of its pre-tax profit to the PST (latterly to the SIP)

The PST/SIP then buys shares from the co-op SHCA

The PST/SIP allocates the shares to employees using a formula agreed by the Trustees

The shares are held in the PST/SIP Trusts until the redemption period is over

The shares are then passed onto the employees Tax Free

Any shares sold when people leave are purchased by the EBT

A Regulated Internal Share Market is used for employees who wish to sell or buy shares, any in balance are taken up by the EBT (at the trustees' discretion)

Employee Ownership Association

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