Online Centres Foundation Ltd

Creating a staff owned mutual

Online Centres Foundation (OCF) manages the UK online centres network of 3,800 community partners throughout England who help people take their first steps with computers and the internet. We develop content to help people get started, lead the way in digital skills research and provide quality training support. We are a not-for-profit staff-owned mutual, with an asset lock to ensure any surplus income generated is reinvested in the social aims of the business.

What was the catalyst / driver for reviewing the governance structure?

OCF was set up following the launch of a competitive tender process by the Skills Funding Agency (SFA) in 2011, for the management of the UK online centres network. The OCF team had been running UK online centres for eight years as part of the parent company, Ufi Ltd. Ufi is a strange body in governance terms, effectively an 'arms length' government body operating under rules affecting non-departmental public bodies (NDPBs), but increasingly commercial through Learndirect, and wholly owned by the Ufi Charitable Trust. The government took a decision to sell Ufi Ltd. to the private sector. As part of that it was decided that as a primarily grant funded part of the organisation, the UK online centres division of Ufi Ltd. should be separated from the sale and the work put out to tender.

After winning the bid, Online Centres Foundation successfully took over the running of the UK online centres network as a social enterprise from December 2011.

In effect, from the decision being taken to privatise Ufi Ltd. in the spring of 2011, the work split into three sections:

- Preparation - Spring until June 2011, was the period between the decision being announced and negotiations about timing and form of the wider privatisation of Ufi Ltd. and the preparation period for the Official Journal of the European Community (OJEU) tendering process.

- Bidding - The OJEU tendering process was in several stages and took from June to mid November, including a final tie breaker pitch to a panel at the end of October 2011.

- Launching - We then had 16 days to make the split, including confirming our legal status, opening bank accounts, securing start-up grants, transferring contracts, concluding contract negotiations with the Skills Funding Agency and organising our internal structure. Much ground-work had been done, but as a new organisation, we were unable to spend either Ufi Ltd. or Skills Funding Agency resources on establishing Online Centres Foundation.

We researched a number of options for the structure and governance of the new organisation. We had a 'shadow' company, an off-the-shelf governance structure, a Ltd. company and a board of directors - chaired by Matthew Taylor of the RSA, and with members of the senior management team as acting directors. The research work was led by the director of operations, reporting to the senior management team and with frequent consultation with staff members. This work was continued during the (highly stressful) bidding period.

What process is being used to carry out the review?

Vital to finding the right governance option was a determination that governance should fit our intended function, culture and values, and allow us flexibility. Key to the success of any new structure was that it was:

- easily understandable - by our staff, partners, customers and Government;
- not-for-profit - crucial for credibility, and likely to open up other avenues of funding eg from charitable foundations;
- staff-owned - this was vital for us, both for the sense of collective purpose and because it fitted the consultative culture; and
- fexible - we wanted to be able to change direction and seize new opportunities.

We also had a model business plan, which we set out in our tender. This detailed our objectives, and our structure needed to fit with that plan.

We took advice from a number of sources, informally and formally. These included lawyers (including an expert in Community Interest Companies (CIC), and the Co-Ops UK legal team), supporters and contacts (including people from organisations with a range of structures), the Cabinet Office-led 'Mutuals Task Force' and others.

We actively considered the full range of legal structures: Community Interest Companies (CIC), Charity, Industrial and Provident Society (IPS), and different forms of Limited Company.

We ruled out CIC because it appeared to be legally restrictive, but without the tax benefits of charitable status. We ruled out (for the moment) becoming a charity, because being run by trustees would have diminished the staff-led element of what we wanted to achieve (with Trustees running the organisation.) IPS was not appropriate for our business. So we settled on a 'bespoke' model of a company limited by guarantee, by adding some features to the standard model to meet our needs.

With the help of the legal team at Co Ops UK, we set out Articles of Association which featured, in addition to the standard points:

- clear social aims, as with a charity;
- an asset lock. Essentially this is the feature that makes us not-for-profit. This is taken from the CIC model, in that we can make surpluses but no profits can be taken out of the company. If the

company is wound up, any surplus is passed to an organisation with similar social aims. This does not have the same legal force as in a CIC, but it would require all the members to vote to change this;

- a guarantee, in that each member provides the company with £1 in the event of insolvency;

- staff as members: every staff member is invited to become a member of the company through an opt-in process. We felt it important for this to be a voluntary process and all of the team has signed up;

- a board structure made up of elected staff directors and appointed non-executives, plus the CEO and a non-executive chair. We had a lively election for the three elected posts and involved them in the interviews for the non-executives. We had excellent applications for our non-executive roles and have appointed five really good candidates; and

- a clear constitution that leaves overall control of the company with the members - eg they can dismiss the Board with a 75% vote of no confidence. We have built-in a formal review of the Board function after 6 months of operation.

The fit with our culture is important. The establishment of the organisation as a staff-owned mutual cements many of the practices that had always been in place. Staff meet as a team a minimum of once every six weeks, to share ideas, give feedback and update each other on their priorities. At these sessions staff shape strategy and feed into the wider business objectives.

Staff also play a major role in the business's finances, suggesting opportunities for cost savings and being able to bid to the senior management team for money to spend on specific projects, or to provide to the network as grants.

How have stakeholders been involved in this process?

Our stakeholders have been involved throughout via consultation on the new structure. We have been genuinely taken aback by the amount of support, encouragement, goodwill and free advice that we have been given by experts, politicians, partners, staff and our personal contacts.

We are now in a position to offer support to others who wish to go through the process.

What questions have arisen for you throughout this process?

Our key challenges have been of many different types.

Navigating the complexity of the possible alternative structures proved challenging. As covered above, there is lots of advice available, but no single source will cover it all, and many sources of advice have their own agenda (albeit a friendly one). It can take some time to sift through and consider them, but we found that having a clear idea of what our success criteria were helped tremendously, as did a determination that we were not just going to accept the 'off-the-shelf' offerings.

There was no track record. In becoming a new organisation, effectively you have no track record (especially a financial one). We found that some organisations and some processes were not geared up for that kind of change. The most challenging was the OJEU process, where it is standard practice to ask for a number of years' audited accounts to demonstrate that the bidder is financially capable of taking on the contract. As we had none, and bid as a new organisation, we had to get the SFA to take into account our track record as part of the previous organisation. This is strictly speaking outside the rules. Others (banks, suppliers) are hesitant about offering credit.

Our culture has needed careful consideration. Although we have become a new organisation and the staff are very much active participants, we are effectively now a 'start-up', but have inherited elements of 'big company' culture. This is taking a while to work through. For example, some benefits are taken for granted, but no start-up would offer them at this stage of its existence.

Some of our support structures were removed as a result of coming from a larger organisation we needed to find ways to cover the expertise and support that were offered in speciailist areas like HR, IT and Finance. We needed accountable staff in our new structure, taking into account what to do ourselves and what to outsource.

How has the changing external environment for FE and Skills influenced this review?

The changing environment of government funding, not just in the skills sector but more widely, made us think about a structure that would allow us to secure funding from alternative sources - commercial income, grant income from foundations, grant income from other parts of Government. We needed to adjust our strategy to deliver more community benefit - by looking beyond our traditional expertise in helping voluntary and community organisations to get people online for the first time, to supporting those organisations to address a wider range of community needs.

How is Online Centres Foundation progressing?

Since its establishment in December 2011, Online Centres Foundation has earned around £400,000 in external income through selling its services and securing new project funding. Developing new income streams is vital to ensure the organisation's long term sustainability.

OCF has held its first board meeting, and has been fortunate to recruit a strong mix of external directors alongside its committed staff directors, as well as an excellent chair, Lord Knight.

Members are taking a stronger role in decision-making; for example, consultations are currently taking place about a potential move to new office premises and a new rewards package.

The organisation's strategy and business plan, which was approved at the first Board meeting, has been developed in close collaboration with members, building on 10 team business plans reflecting every area of the business.

What is the future for Online Centres Foundation?

OCF will continue to develop its strategy, with the aim of becoming a sustainable social enterprise by March 2013.

The organisation will continue to work with partners in the public, private and third sectors to encourage investment to support the use of technology in communities.

Staff will continue to play a major role in decision-making, identifying business development opportunities and taking responsibility for collective income generation targets.

What three lessons learned would you share with other governing bodies considering a similar change process?

The range of options (and options within those options) are endless and complex. We would recommend starting with a clear view of what your organisation needs from its governance structure in order to succeed, before beginning to examine the options.

We would also recommend consulting a wide range of experts to help get the full range of advice, bearing in mind that we found no neutral advice. The people we saw were experts in particular models and therefore were subtly promoting those models. The second element here, is setting aside time for one or two staff to become in-house experts, and have those conversations with external experts in the context of the criteria agreed, presenting back to decision-makers.

Finally, do not underestimate the cultural and practical elements of changing the nature of your organisation. Even if you stay in the same building, doing more or less the same things, the change is significant for staff, and a range of seemingly small changes add up to a great deal of uncertainty.

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