

Thinking about taking the Social Enterprise route?

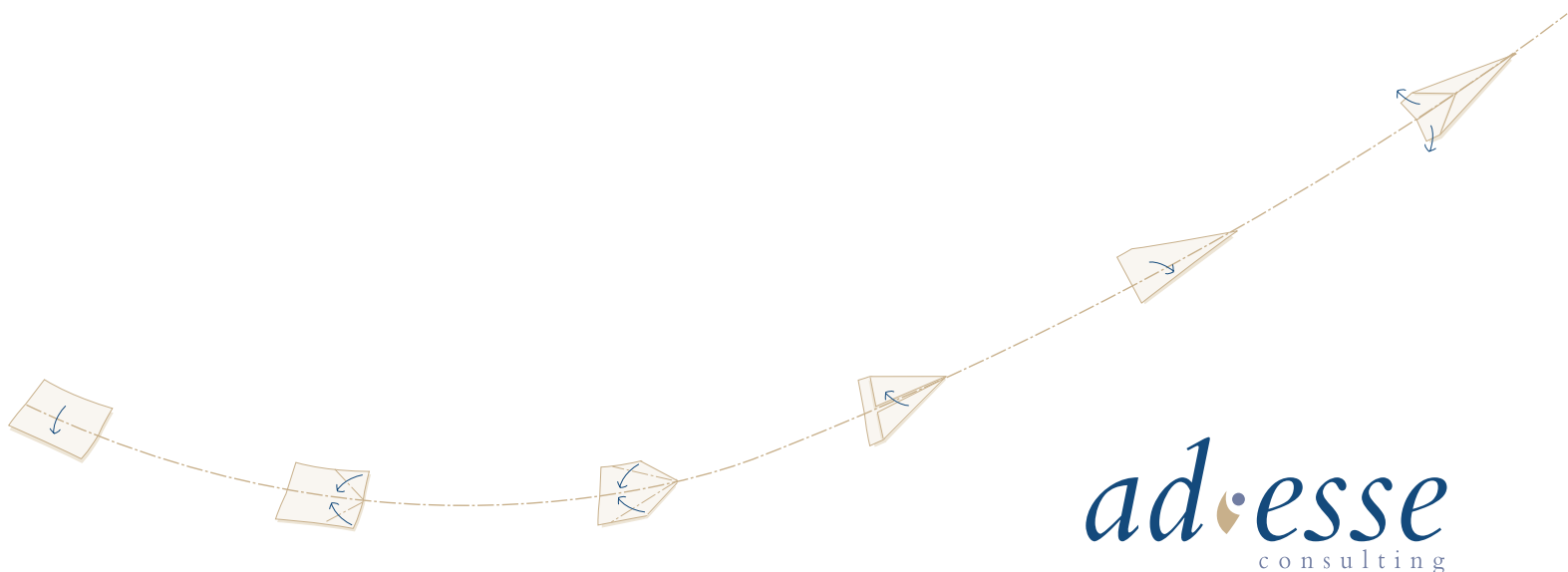
Much has been written about the apparent failure of the NHS to make better use of the billions of pounds of extra funding ploughed into it over the last eight years. After trying various types of different contracting relationships between trusts, SHAs, GPs and the general public, the view is starting to form that it is the fundamental structure and size of the NHS that is restricting innovation and improvement. Creating artificial markets is seen to be less effective than developing real markets where real innovation leads to real increases in the ability to deliver services.

Using social enterprises to deliver core services is a route being adopted in different parts of government, with the NHS being the latest to move some of its delivery services out of the core NHS and into autonomous delivery vehicles.

Ad Esse was invited to support a Primary Care Trust in building a sound business case for creating a separate delivery arm that would be outside the core NHS PCT. This was a challenging and unique project as there were few models or examples of good practice to follow. This paper describes some of the lessons we learned during that process.

Social enterprises are:

"Businesses with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."



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Social enterprises share common characteristics such as:

- A strong business ethos to compete for the provision of goods or services.
- Explicit social aims such as regeneration, training, providing health and social care, particularly in deprived communities.
- Governance and ownership structures based on the participation of key stakeholders and accountability to the wider community.

These characteristics are very much in tune with key health policy issues, as expressed, for example, in the White Paper, **'Our health, our care, our say'**, which identified social enterprises as an important vehicle for delivering health services.

THE PERCEIVED ADVANTAGES

In our discussions across the PCT, many health managers we spoke to could identify significant efficiency gains possible in their own areas of responsibility, which could produce surpluses to be reinvested in improved services. Currently though, there is little incentive to take risks in order to make such savings, as surpluses in one area are often clawed back to cover deficits in another, or even in a completely different PCT.

Combining a public service ethos with the entrepreneurial drive of a business was viewed very positively. The current push by government to support social enterprises with a range of new business support services and financial packages was also seen as a timely opportunity. The ability to invest surpluses in the local community, increased levels of staff development or other good causes, meant that staff felt that there would be a general commitment to make the new organisation a success.

Examples of social enterprise partnership finding innovative solutions to challenging social problems was welcomed. Most people felt that forming a social enterprise could provide an opportunity to reduce the bureaucracy which currently hampers change and so help to reconfigure health services for the benefit of patients.

Overall, the view was consistently expressed that becoming a social enterprise would enable providers to compete more successfully for contracts and improve services. It was also felt by managers that it would be easier to engage staff in improvement activities if the benefits from those improvements fed back to their own sphere of work and/or led to personal reward for staff.

CHALLENGES TO BE ADDRESSED

A number of challenges needed to be addressed in order to develop a convincing business case. If staff are to transfer to a social enterprise, they will need to feel that their jobs are secure and that their terms and conditions of employment are acceptable. Addressing the transfer of pensions is a top priority. Seconding staff from the NHS to the new company was considered as a way of retaining existing terms and conditions of employment. However, this was rejected as it could have reduced ownership, responsibility and accountability to the new company.

Contract size and commissioning was also a concern. Newly merged PCTs may want to make savings by opting for very large contracts which smaller providers would struggle to bid for. More 'obligational' long term, rather than adversarial, contracts would be beneficial for newly formed social enterprises. The length of contracts is also important. Short-term contracts are a real barrier for social enterprises. Contract length should reflect risk. For example, if major investment is required, the contract should be for at least five years.

There is an assumption that commissioners know what they want from providers. However, PCTs can find it hard to tender their services because they lack detailed knowledge of the outcomes that they want to achieve. Poor contracting could lead to a situation where social enterprises would offer what they knew was actually required by patients, whereas more commercial organisations would offer the absolute minimum level of service required to meet the invitation to tender.

Other challenges that need to be addressed include a lack of leadership and entrepreneurial competence in most NHS organisations and a lack of support and capacity building. Few managers in the NHS have been selected because of their entrepreneurial spirit and the majority have no experience of running private sector organisations. As an organisation moves to social enterprise status, the requirement for managers to think commercially increases tremendously and so commercial management expertise may have to be bought in.

EVALUATING THE DIFFERENT SOCIAL ENTERPRISE OPTIONS

There are many different types of social enterprise: Co-ops, Community Interest Companies limited by shares or by guarantee, Limited Liability Partnerships, to name a few. We posed the following questions when deciding which form of social enterprise to adopt:

1. Do the general features of the form fit with the ethos of your existing organisation?
2. Can NHS pensions be transferred?
3. To what extent do they ensure limited liability?
4. How suitable are the governance and constitutional features?
5. How robustly is the social mission guarded?
6. How easy is it to register and how tightly are they regulated?
7. Will the form promote entrepreneurial management practice and culture?
8. Does the model offer a wide range of options for raising finance, for example, loans, bond issues, raising share capital and paying dividends to employees?
9. How well does the form lend itself to working in partnership with other private, public and Third Sector organisations?

Having asked these questions, our clients opted to become a Community Interest Company Limited by shares. To assist with options appraisal, Ad Esse developed a matrix for assisting organisations to choose the most appropriate form of social enterprise. Too large to fit in this case study, the matrix compares the different types of social enterprise model and their relative advantages and disadvantages and was felt to be a useful tool to communicate the different options to PCT board members.

DEVELOPING THE BUSINESS CASE

In order for the PCT board to be able to approve the business case a number of key issues had to be addressed in detail. A review of the Ad Esse thinking around those issues follows.

- **Leadership and Governance**

A draft Memorandum and Articles for the new organisation were developed. It had to be clear what the obligations of the new board would be and how the social objectives of the new delivery unit would be guaranteed.

The credibility and effectiveness of social enterprises in meeting their social mission has been linked to the participative way in which governance is exercised. In particular, the participation of beneficiaries in the development of the service is seen as a key to their success. Our consultation with managers revealed a real desire to create governance structures that represent the interests of key stakeholders and enable them to influence policy and practice.

- **Human Resource Management**

Pensions are a key concern for staff asked to move from the NHS into a social enterprise. Some legal forms of organisation cause barriers to acceptance into the NHS pension scheme, for example, a Company Ltd. by Guarantee. However, NHS pension rights can be transferred to a Community Interest Company Limited by Shares. Providers not 'beneficially owned' by NHS members do not currently have access to the NHS pension scheme, however, the use of such contractual routes as SPMS will allow for NHS pension transfers.

The business case also had to outline how restructuring and workforce planning might take place and how the surpluses from the enterprise would be fed back into continuous professional development. Equally, the social enterprise's approach to equal opportunities, diversity and health and safety once outside the NHS had to be clarified.

- **Developing Enterprise Capability**

To compete on a level playing field with other providers, social enterprise managers will need to have sound business skills and commercial acumen. A range of new business related competencies will be needed that may be in short supply, for example, marketing, sales and business development, securing tenders, applying commercially driven approaches to management accountancy and funding. There is also a need to motivate high performance through an effective incentive scheme.

- **Finance**

No matter how well the governance and HR issues are tackled, if the financing of a social enterprise fails, then the organisation fails. A key aspect is that of cashflow. Although this is rarely a problem in the public sector, when annual budgets are generally looked at in whole years, once an organisation splits off from the NHS, the timing of the arrival of funds is critical. The support of the parent PCT will be vital in the early years of a new social enterprise unless alternative funding sources are used, but one advantage of the CIC model is that loans and share issues can be used to provide short and long-term funding.

The board needs to consider what funds will be required and where these funds will come from and what support will be required from the PCT in the early stages of development.

- **Marketing**

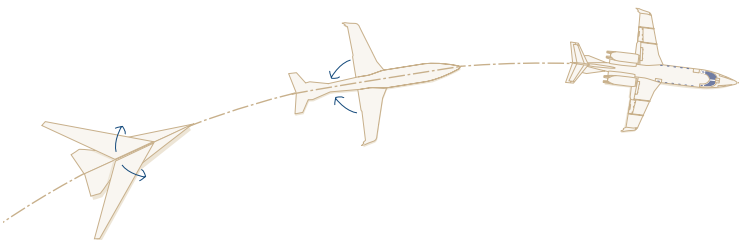
Although there was little in the way of marketing activity in the current PCT delivery area, it is clear that this has to be addressed as the relationship between the social enterprise the commissioners, the community at large change. The social enterprise will have to ensure that the public and commissioners appreciate both the levels of service being provided, the benefits to the community and commissioners of using a social enterprise to deliver those services and the extra services that the enterprise could provide. Internal and external marketing will be vital and a structure to manage and provide it will be essential in the new organisation.

BEYOND THE BUSINESS CASE

Although the current business case and draft business plan define where the current PCT is and where the new social enterprise wants to be, there is also a requirement for a detailed transition plan. This plan has to break down the transition process in such a way that the organisation is viable, and can operate effectively, at every stage of transition. The plan covers over ten different elements of the transition process, how they each need to evolve and their interdependence, with clear timings and responsibilities for each part of the change process. Central to the change is effective communication with all internal and external stakeholders. It is essential that the move to social enterprise status is seen as a positive improvement rather than a loss of a beloved service.

Although this transition process has not finished we are proud of our support to this PCT.

If you would like to talk to someone in Ad Esse about how we can support your organisation through the transition to social enterprise status, please contact Philippe Lacey on 07843 3092665 or via seriousfun@ad-esse.com.



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