

# OECD Annual meeting on Public Private Partnerships

Paris, March 2011

## **PPP, Social Enterprises and lessons from the Private Finance Initiative**

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# What are social enterprises?

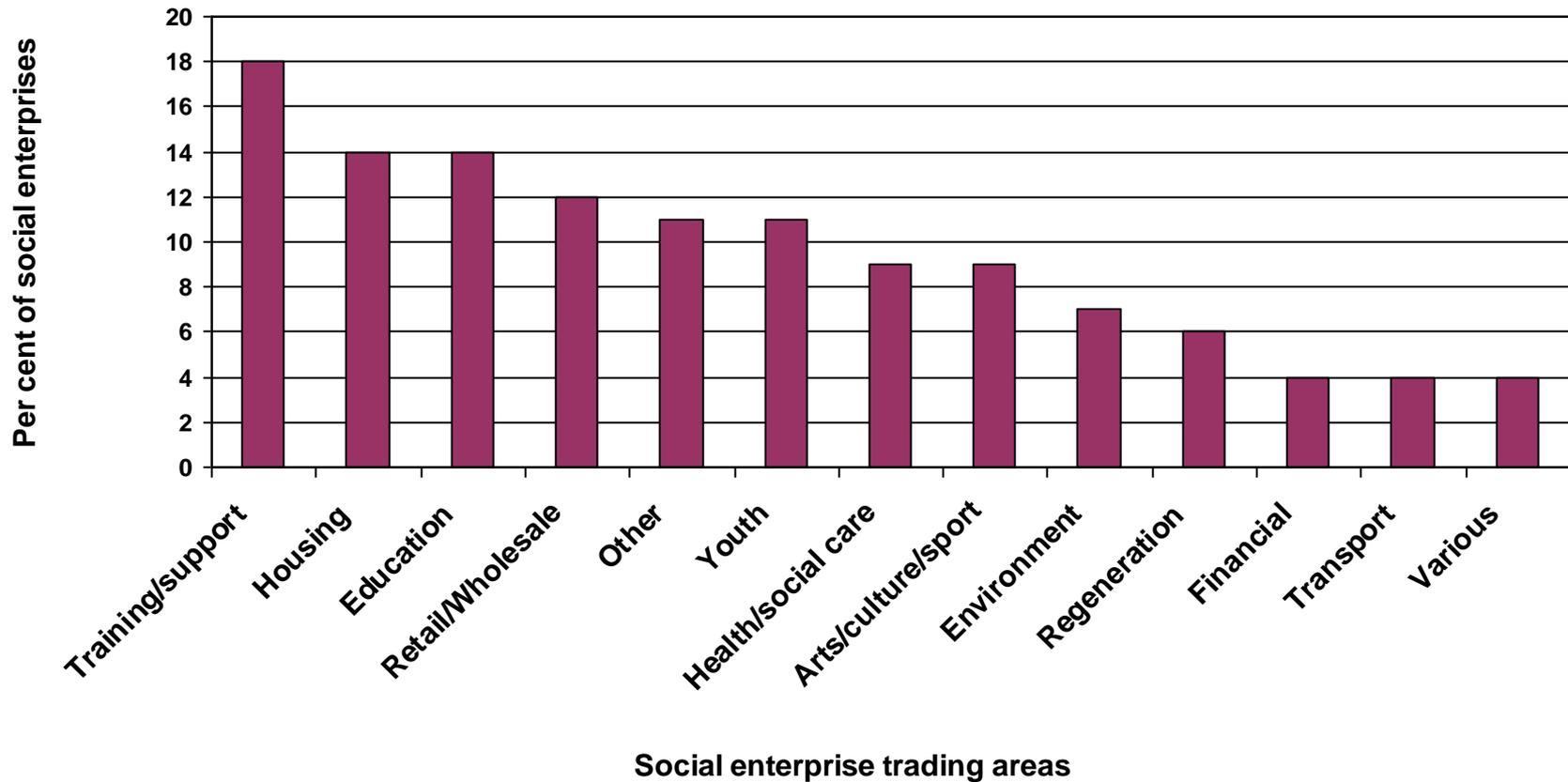
- **Social enterprises** blend entrepreneurship, business acumen, strong values and a mission for social justice.
- As with all businesses, they compete to deliver goods and services.
- The difference is that social purpose is at the very heart of what they do, and the profits they make are reinvested towards achieving that purpose.

The OECD definition of social enterprise is "any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity of bringing innovative solutions to the problems of social exclusion and unemployment"

# Social enterprises in UK public policy 1

- Social enterprises have a long history of delivering public services in the UK. They can:
  - Deliver services directly to citizens  
*eg a leisure centre providing sporting facilities to a local community*
  - Deliver services to state organisations that themselves deliver services  
*eg a cooperative providing training to a local authority*
  - Take over existing services and assets from the public sector and maintain service delivery to citizens  
*eg a group of nurses in a hospital forming a separate entity to manage the delivery of existing nursing services*

# Areas Where Social Enterprises Are Actively Trading



## Social enterprises in UK public policy 2

Advocates believe that social enterprises can bring:

- Lower costs
- Higher benefits
- Greater transparency and accountability
- Greater employee empowerment

# Social enterprises in UK public policy 3

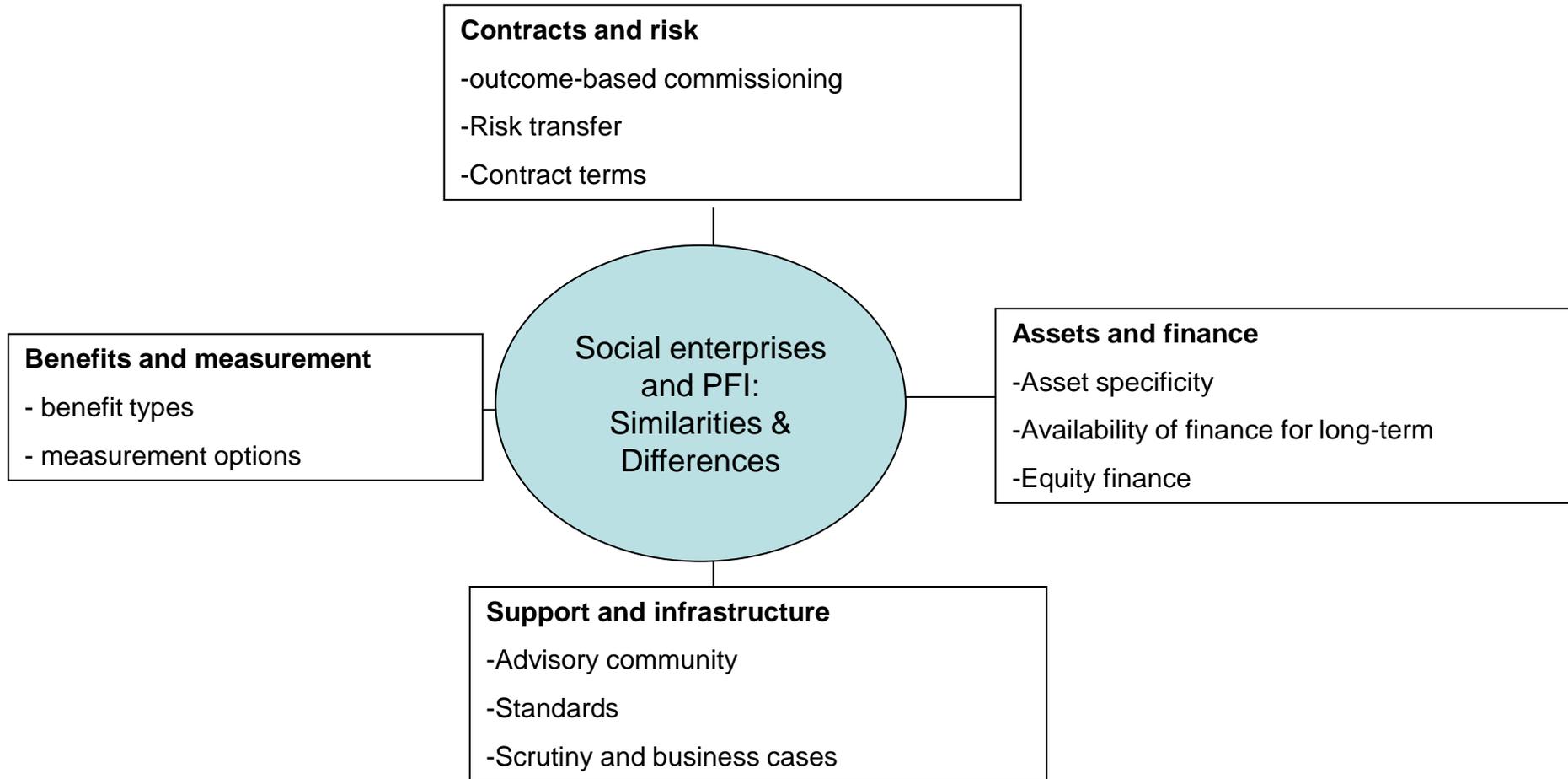
- Social enterprises are seen as the “the next big thing” in UK public policy
- There is particular interest in “spinning out” social enterprises – transferring existing assets and services to new not-for-profit entities, typically owned by staff
- Like PFI, this is an innovative delivery model, delivering services through non-public sector vehicles
- This presentation asks: “What can social enterprises learn from PFI?”

# Similarities and differences between PFI and Social Enterprises

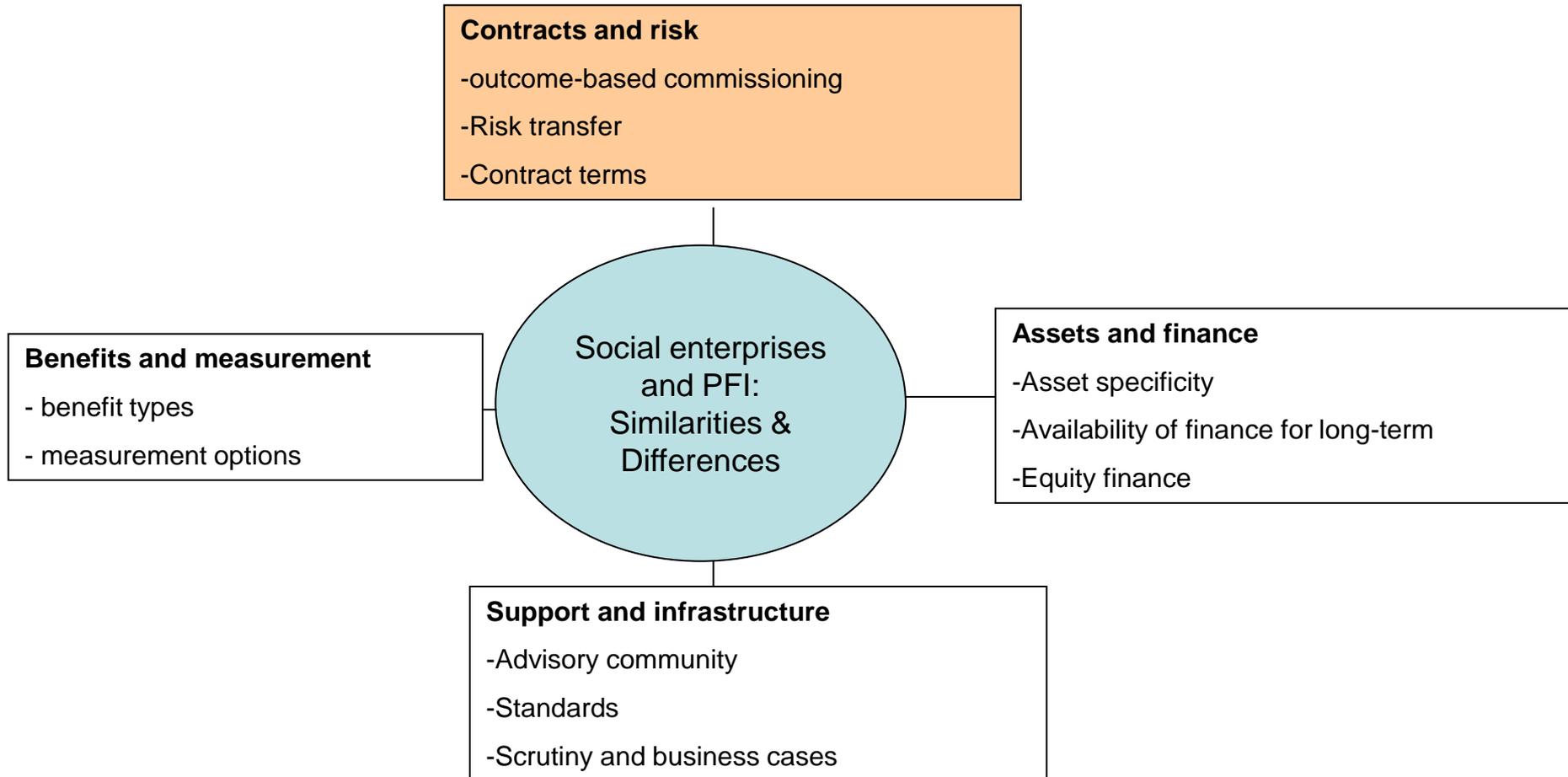
# PFI and social enterprise: Key Facts

- £200 billion      There are around 500 English PFI contracts involving future spending commitments of £200 billion
- £8.4 billion      The amount social enterprises receive each year from Government
- £1 billion      The value of Healthcare to be delivered through social enterprise by Sept 2011 in England and Wales.
- 40%      The number of social enterprises that receive the majority of their income from the public sector
- 
- 1 in 6      The Government's ambition for the number of public service staff setting up their own mutuals/social enterprises would, if realised, dramatically change the service delivery landscape, so that 1 in 6 public servants to take co-ownership of the body they work for by 2015.
- 171,000      The total number of voluntary organisations in UK, with a total income of £36 billion
- £200 million      The expected initial funding available to the Big Society Bank with £200 million, funded by commercial banks and money from dormant account, to support civil society organisations. Loans will be made available on commercial terms.

# Social enterprises and PFI



# Social enterprises and PFI

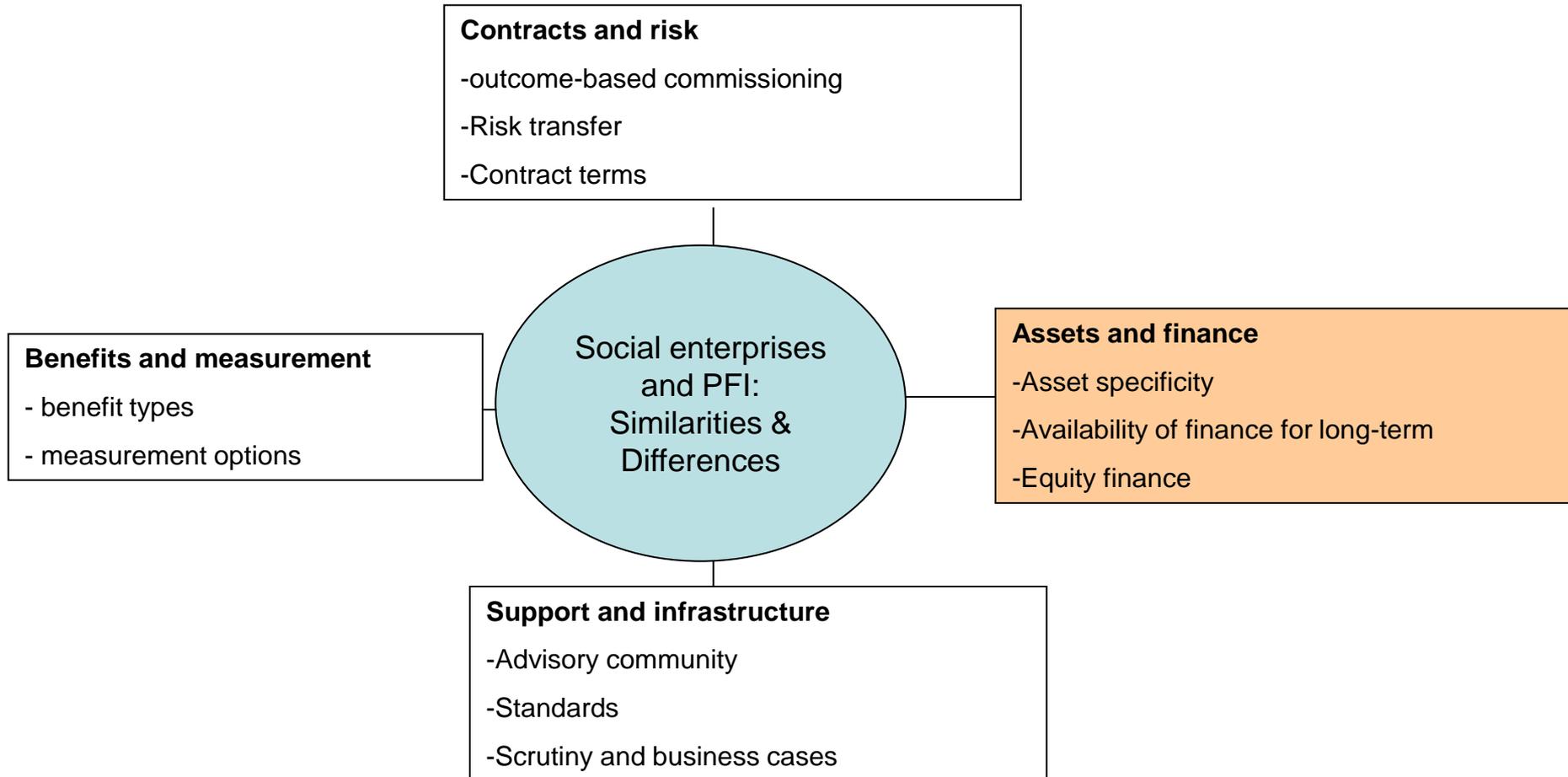


### Contracts and risk

- outcome-based commissioning
- Risk transfer
- Contract terms

- Both models:
  - Focus on outcome-based contracts
  - Ultimate risk remains with the public sector
- BUT....
  - PFI contracts are typically long term (25 to 30 years)
  - Contracts with social enterprises that are spinning out of the NHS are typically short term (3 to 5 years).

# Social enterprises and PFI

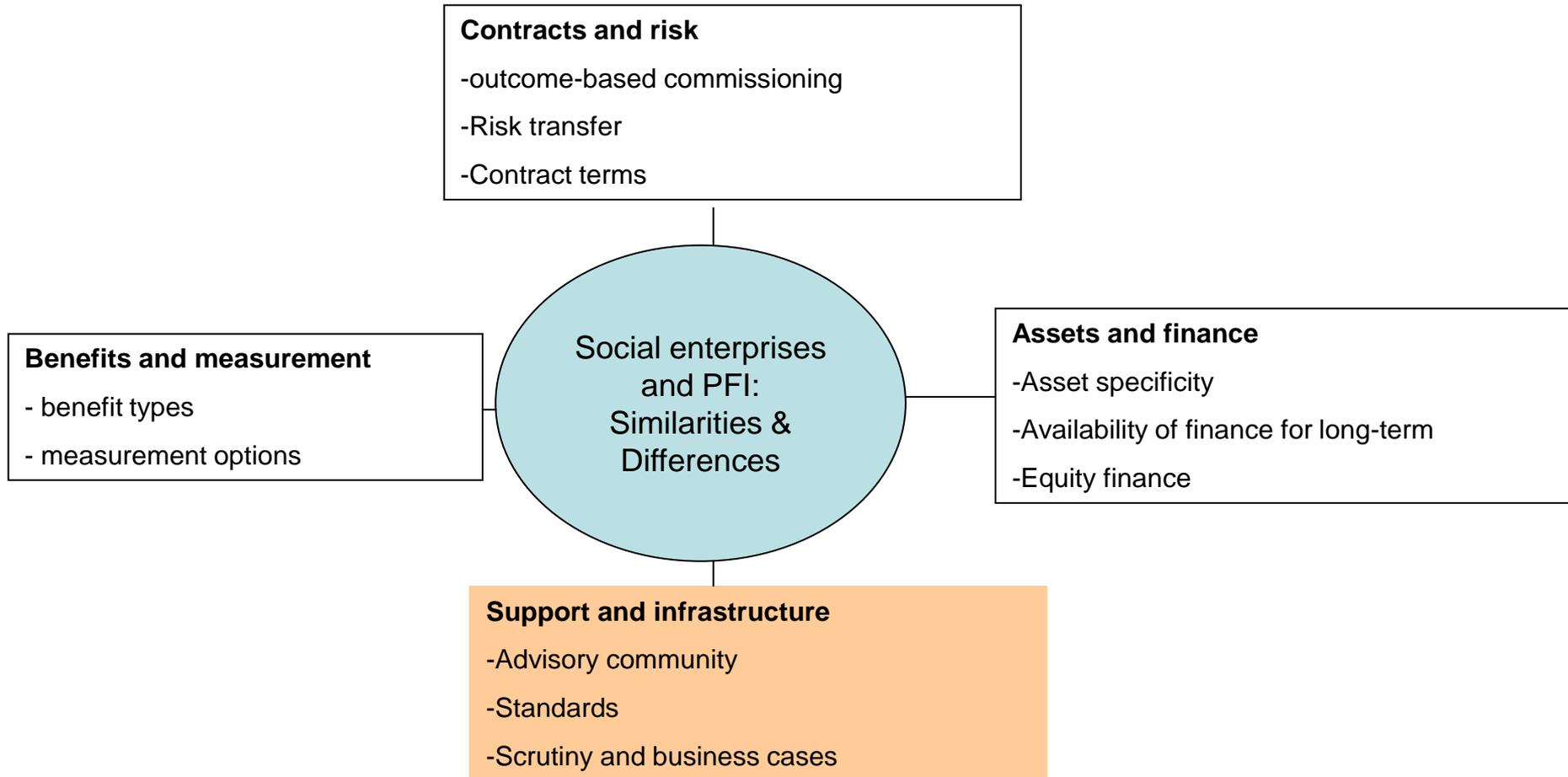


### Assets and finance

- Asset specificity
- Availability of finance for long-term
- Equity finance

- PFI contracts are typically supported by assets and by a liquid market of lenders
- There is an absence of access to an equivalent funding community for social enterprises:
  - Short term contracts do not give enough certainty for *loan* finance
  - Lack of profits for distribution mean that *equity* investment may be harder to attract
- As a result, the public sector has injected finance into new social enterprises (eg Futurebuilders Fund, Social Enterprise Investment Fund) and established enterprises have retained their profits as a source of capital

# Social enterprises and PFI

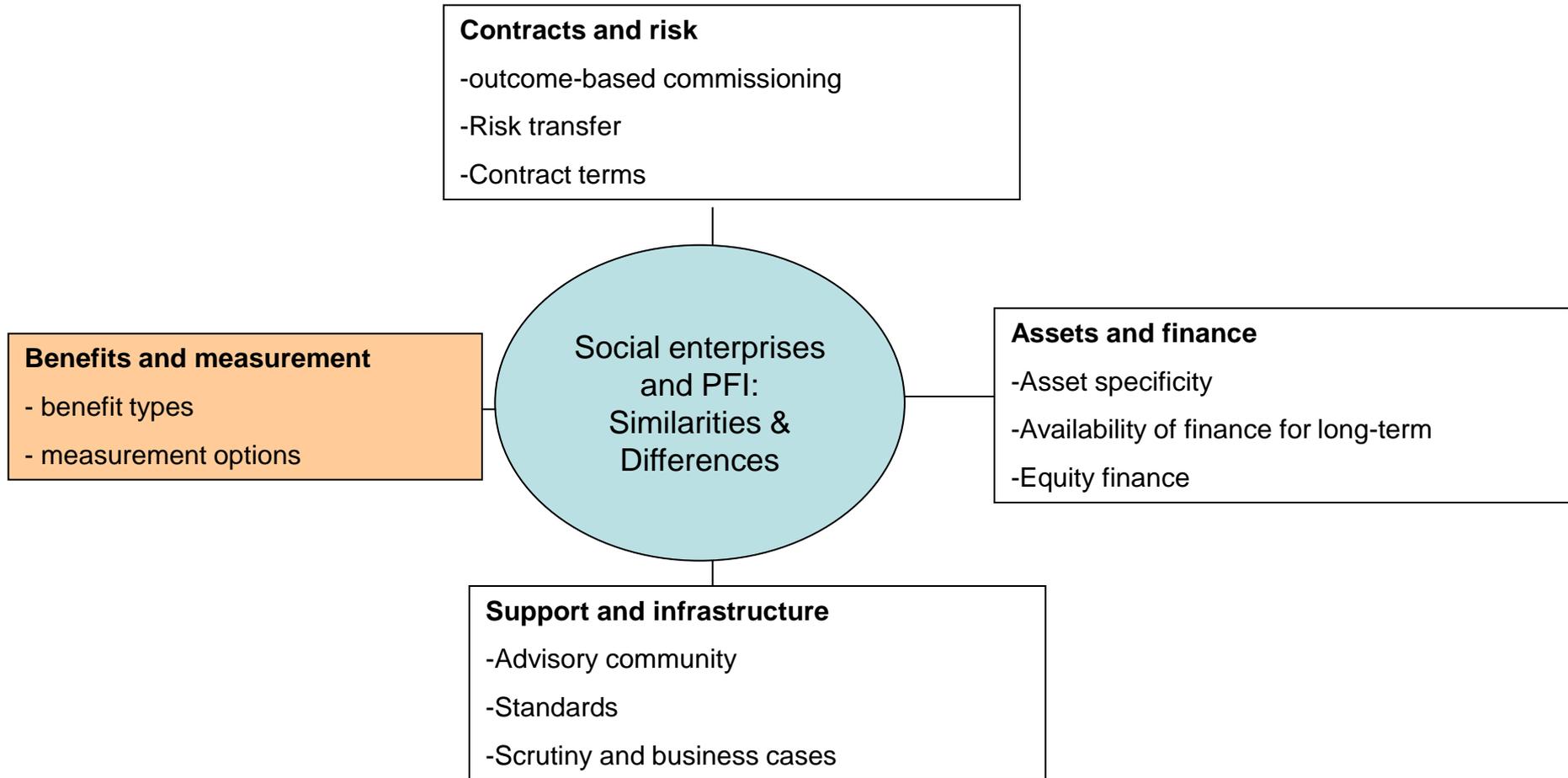


### **Support and infrastructure**

- Community of support and learning
- Standards
- Scrutiny and business cases

- **The PFI learning curve:**
  - A community of advisors and supporters and a strong centre
  - Standardisation of contract terms
  - Scrutiny of business cases
  - Managing programmes not projects
  - Contract management
- **The challenge facing the development of social enterprises surrounds:**
  - a community of support and learning – advisors, commissioners, champions
  - standardisation of contract terms
  - strong (and neutral) scrutiny of business cases
  - the capacity and resources to manage contracts with social enterprises once signed

# Social enterprises and PFI



### **Benefits and measurement**

- benefit types
- measurement options

- The UK Government's growing interest in the social enterprise model is centred on the prospect of it delivering a wider range of benefits than traditional in-house or private sector provision
- These benefits may be:
  - social in nature;
  - environmental in their impact;
  - supportive to the local economy;
  - address issues of employee engagement and motivation
- All are difficult to measure and are long term
- As a consequence, these benefits frequently fall outside of payment mechanisms and performance management arrangements

# Conclusion - social enterprises and PFI

In conclusion, to learn from the PFI experience, sponsors of the use of social enterprise need to solve four problems:

- Contract duration
- Access to finance
- Impartial support and scrutiny
- Rewarding delivery of outcomes

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