

Social Private Partnerships – innovation in public service delivery

a PwC Public Sector Research Centre publication



talking points

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talking points

Introduction

The last decade has seen a determined push by Whitehall to create a more mixed economy for public service delivery. The policy objective, initiated by the Blair government, has been to transform the country's £79bn public service market by widening choice, lowering cost and radically improving service delivery. The third sector has been an important part in this reform process, and is portrayed by politicians (from all parties) as an important element in the mixed provision of services.

However, the reality of growing the third sector has not always matched the rhetoric. It is still very much the private sector that competes head to head with public agencies and challenges the status quo. Nevertheless, the third sector has grown and become more prominent and more assertive. Indeed, despite the current economic downturn there could be great opportunities for social enterprise in particular to expand into new markets. Accessing that opportunity may, however, rely upon partnerships and alliances with private providers to achieve a critical mass in capacity and capability in order to address larger and more complex service requirements.

State of the market

The last decade of unprecedented strong public spending growth (especially in health and education) and increased ‘contestability’ has helped open up the public services sector, with private providers (some operating internationally) accounting for a much larger share of market. Recent forecasts by BERR suggest that growth will continue at around 3% a year until 2011, around 2% a year lower than in the past but still significant. The value of the public service sector could well rise to over 6% of GDP, making it one of the largest public service markets in the world.

Social enterprise has benefited from the growth of the public service market, both in helping to pioneer new services and through driving innovation in service delivery. Increased commissioning and direct support, provided by initiatives like Futurebuilders, the National Third Sector Commissioning programme and the Department of Health Social Enterprise Investment Fund, have all worked to increase the sector’s profile.

However, compared to private and state providers, social enterprise is still a relatively small (and often niche) player. The majority of social enterprises are small-scale, local, and active in under-served or under-commissioned markets.

In addition, there is still a lack of awareness and understanding of the business model and uncertainty as to what the term means.

Despite this lack of awareness there has been a noticeable increase in activity among social enterprises in key markets such as social housing, health, and social care. Many of these organisations are hoping to expand and are gaining considerable support from both Government and consumers. A recent YouGov poll (November 08), for example, showed that people want more social enterprises to play a much bigger role. When asked what we need more of to ensure a sustainable economy for the future, 42% of respondents chose social enterprises, ahead of government institutions, charities funded by donations, and traditional business. A similar poll of public service users in November 2007 showed that 64% said they would choose a “business that reinvests its profits for the benefit of the community” to run their local healthcare, rubbish and transport services as efficiently as possible, assuming the cost would remain unchanged. Only 5% said they would choose a “traditional charity”, whereas 11% would prefer a Government institution and 9% a “business that generates profit for owners and shareholders”.

The implication, therefore, is that there is widespread public support for greater participation of social enterprise in the market, which suggests considerable scope for expansion.

Both central and local government have also strengthened their relationships with social enterprise, and are actively looking for new ways to improve and expand their involvement in service provision. For example, in the health sector, the Darzi review introduces a new ‘staff right to request’ to set up social enterprises to deliver services. Leaving aside the arguments about the degree to which social enterprises can deliver services in a distinctive way and are better suited (and better able) to deliver services in certain markets than a purely commercial enterprise or public agency, there is arguably a case to support the sector in the interests of creating a more dynamic mixed economy. In this regard, social enterprises that want to expand and want to move into new and emerging markets (like some of their private competitors) could be an attractive investment and partner.

Keeping up with the competition

However, the social enterprise sector faces constraints on its growth and has yet to compete across the board with private service providers. The challenge seems partly related to the sector itself and its lack of capacity, funding (and perhaps culture or confidence), and partly related to the way that commissioning and procurement systems favour larger private and public providers.

In the future it is likely that the public service market is likely to become more competitive. To meet this challenge many social enterprises will have to significantly improve the way they invest for growth, manage their operations and governance. Voluntarism and a commitment to re-investing profits for social good are arguably not enough to claim a relatively larger slice of the cake. Social enterprises (like their competitors) need to demonstrate that they can deliver services efficiently and effectively, are fit for purpose, and offer first rate service to customers comparable to private firms and public organisations (who often have a similar ethos and philosophy).

Craig Dearden-Phillips, Chief Executive of Speaking Up, and co-founder of several social businesses, captured the challenge well in his Guardian article (September 08) when he stated that “regardless of which sector you come from, being professional, well-managed and economically dependent on good delivery are preconditions of success. Mission-related benefits only kick in, and are only of any genuine value to anyone (including the user) when execution is right”.

Many social enterprises agree with this view, but face a test to get the skills mix, management, business planning, and governance right. There are many examples which demonstrate the ability of social enterprises to innovate and improve their professionalism and business acumen. The question is can they make the leap forward quickly enough and on a big enough scale to make the impact on the public services market that politicians and others would like.

Accelerating the development

There is of course no panacea to accelerating the development of the social enterprise sector. Different social enterprises have different ambitions and needs (one may need to improve its trading operations, whilst another, such as a housing association, may benefit from a merger). Nevertheless, many of the larger social enterprises are capable of 'gearing up' and delivering substantial growth and expansion of services beyond their current size and remit. The challenge in achieving significant expansion is often around securing timely access to the capability and capacity necessary to build a wider and deeper service offering. The fact is that most social enterprises are similar to any other business.

The differences are often in terms of governance (where social enterprises have members and trustees, rather than shareholders), in management and operations (where there is often a more participatory culture, a strong sense of 'social mission' and volunteering), and in access to finance (where social enterprises often struggle with conventional funding). These differences, rightly or wrongly, can often be the make or break factor, especially in today's more competitive public service markets.



Social private partnerships

The range of business support and advice on offer to social enterprises is making a difference. Social entrepreneurs are being encouraged through the curriculum and with start-up funds to stimulate good ideas. But, lack of funding to continue to build capability and expand is an ever more serious constraint, and many social enterprises, like many commercial businesses, are finding it difficult to grow in the current trading conditions. We therefore currently have a situation where government and much of the population wish to see social enterprise play a greater role in service provision but the economy and the relative immaturity of the sector are acting as a constraint on growth. Given the current financial and economic climate, one way of achieving a breakthrough expansion in the sector could be to actively promote and broker much closer collaboration between social enterprises and the private sector.

A marriage of the two models through joint ventures and new social private partnerships (SPPs) would enable social enterprise to scale up operations, access additional strategic, human and financial capital, and hence secure a greater share of delivery contracts. The SPP hybrid business model would seek to harness the best of the pure commercial sector to underpin a substantial expansion of social enterprise activity aimed at generating a major increase in the achievement of the nation's social and environmental goals.

This partnership approach (which mirrors the growing partnership working between government organisations and private firms) can offer social enterprises the capability, credibility and capacity necessary to win, manage and operate more government contracts, but with a clear focus on the delivery of positive or improved social and environmental outcomes. Partnership approaches can offer the potential to access resources (people, systems and finance) and opportunities, for example in new locations and as part of larger commissions. On the other side, it also offers private firms a competitive edge, with access to specialist knowledge and expertise, innovation, an ability to connect with clients and users who are hard to reach and serve, and evidence of a commitment to the community.

This type of partnership working can create competitive advantage, strengthen corporate social responsibility and enhance management performance as well as generating a bigger social dividend for us all by responding to the public desire highlighted above to see profits being reinvested in communities. In simple terms, an SPP may enable a social enterprise to increase its market share, and by maximising surpluses it is then able to reinvest for greater social benefit.

This growth model predicated on partnerships with the private sector may not apply to all social enterprises; it is perhaps most appropriate for established enterprises seeking to make the next step in the evolution of their business.

We are finding that there is a growing demand from the private sector to engage with, procure from or provide services to social enterprise. There is also a desire among social enterprise leaders to work more closely with business. Filling that 'knowledge and partnership gap' will take on more significance as commissioning evolves and private firms look to diversify into new joint ventures and consortia. Improving business support for individual social enterprises is important, but there is also a need to provide advice and perhaps incentives to drive the creation of SPPs.

Andrea Westall's study, 'How can innovation in social enterprise can be understood, encouraged and enabled?' (November, 07), notes the trend towards partnership working, but comments that "there needs to be a much greater sharing of good practice and failures, as well as the development of useful processes and toolkits, before successful groupings and networks can become more than one-off examples" (Office of the Third Sector).

Impact of the economic downturn

The Government's strategy for growing the third sector is praiseworthy, not least because it recognises the need to invest long term in developing the sector's infrastructure and is actively promoting the social enterprise business model in a way that was unheard of a decade or two ago. However, the economic downturn and resulting pressure on public spending will make it hard to implement the Government's Social Enterprise Action Plan in full. Many of the smaller (grant dependent) social enterprises are going to find life difficult in the short term. Partnerships with the private sector may help many social enterprises to change and adapt to the new economic circumstances by drawing on previously unavailable knowledge, resources and business opportunities.

Scaling up social enterprises so they can compete effectively for a greater share of the public service market will demand strong government support and perhaps tax and other incentives to promote joint ventures and SPPs. In addition, there is clearly a need to increase the range and type of finance available to social enterprises and SPPs, perhaps including the creation of a new Social Investment Bank and other new conduits between the transitional finance community and the social investment sector. A combination of access to new finance and additional capacity and capability would provide social enterprises with a solid platform on which to build an expanded and sustainable presence as key deliverers of goods and services, while greatly increasing social and other benefits.

Conclusion

It is important not to exaggerate or confuse the role of the third sector and social enterprise. Much of the third sector will remain dependant on giving. Only 2% of total public spending is on third sector delivery and a high proportion of social enterprises are micro-businesses. However, the sector receives widespread support and is popular with Government and service users. Moreover, if the goal is to create a mixed economy of providers then there will need to be more social enterprise involvement, especially in areas where private providers or public providers are dominant.

The economic downturn will act as a brake on the rate of growth and constrict access to conventional funding, but may also open up new opportunities as the government seeks to fast-track spending in key areas like health, education, housing and transport while also delivering on social outcomes, such as limiting worklessness and inequality. Advancement in outcome-based commissioning (whereby social or local added-value, like volunteering or mentoring are factored into the procurement process) and the introduction of full cost recovery should be real plusses.

A faster scaling up in the social enterprise sector will also require more collaboration and partnerships with the private sector. Partnerships and SPPs are not the only route to growth and will not be suited for every social enterprise. Some, for example, will feel their independence compromised. Others may see it as too risky and fear being junior partners, pushed out once work is won and the contract is secured. However, as the model and markets evolve there is a growing consensus that the social enterprise and private sectors have many common aims and objectives, and hence shared interests.

Using profit to deliver social benefits is a concept that the private sector has already embraced through its considerable investment in corporate social responsibility programmes. Maximising profit should enable social enterprise to deliver a higher level of 'mission benefits'. Surely, therefore, the time is ripe to recognise the coming together of the two related sectors, and to adopt a more assertive approach to partnerships between social enterprises and private firms in the provision of public services.

Working together, and sharing experience and resources, may indeed become a necessary means of achieving the traditional aims of both sectors whilst better harnessing public spending for the wider public good.



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Ray is a partner in PricewaterhouseCoopers Public Private Advisory team with over 15 years experience advising both public and private sector clients in the areas of economic development, regeneration, inward investment and business growth. He has particular expertise in public private partnerships focused on regeneration and economic development and also offers significant experience in corporate finance, fund raising and project evaluation. Ray heads up our national regeneration team and is currently focused on developing new financing solutions for infrastructure investment.

Outside the firm Ray is a non-executive board member of Creative Sheffield, the City Development Company for Sheffield, and a visiting professor of regional development at Newcastle University.

About PricewaterhouseCoopers

PricewaterhouseCoopers has been working with social enterprises for many years, most notably in the public services industry. We provide assurance, tax and audit services to over 450 charities, as well as financial advice and consulting services to both small and large social enterprises. We are also helping develop approaches to social investment and finance, and commissioning for social outcomes.

Growing the social enterprise sector in a sustainable way is seen as critical to meeting the Government's objective of creating a mixed economy of public service delivery. PwC is actively supporting that growth. We are currently involved in providing new insight into market developments through a programme of research on capacity, capability, and funding in the sector, and are actively promoting partnerships between social enterprises and private organisations.

About PwC Public Sector Research Centre

PricewaterhouseCoopers' Public Sector Research Centre (www.psrc-pwc.com) provides insight and research into views and attitudes as well as best practice in government and public sector organisations – including the interface between the public and private sectors – throughout the world. We draw on the thinking and perspectives of these organisations themselves, our own global network, and leading think tanks and academies to enable a collaborative exchange on the most pressing issues and challenges facing governments and the public sector.

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