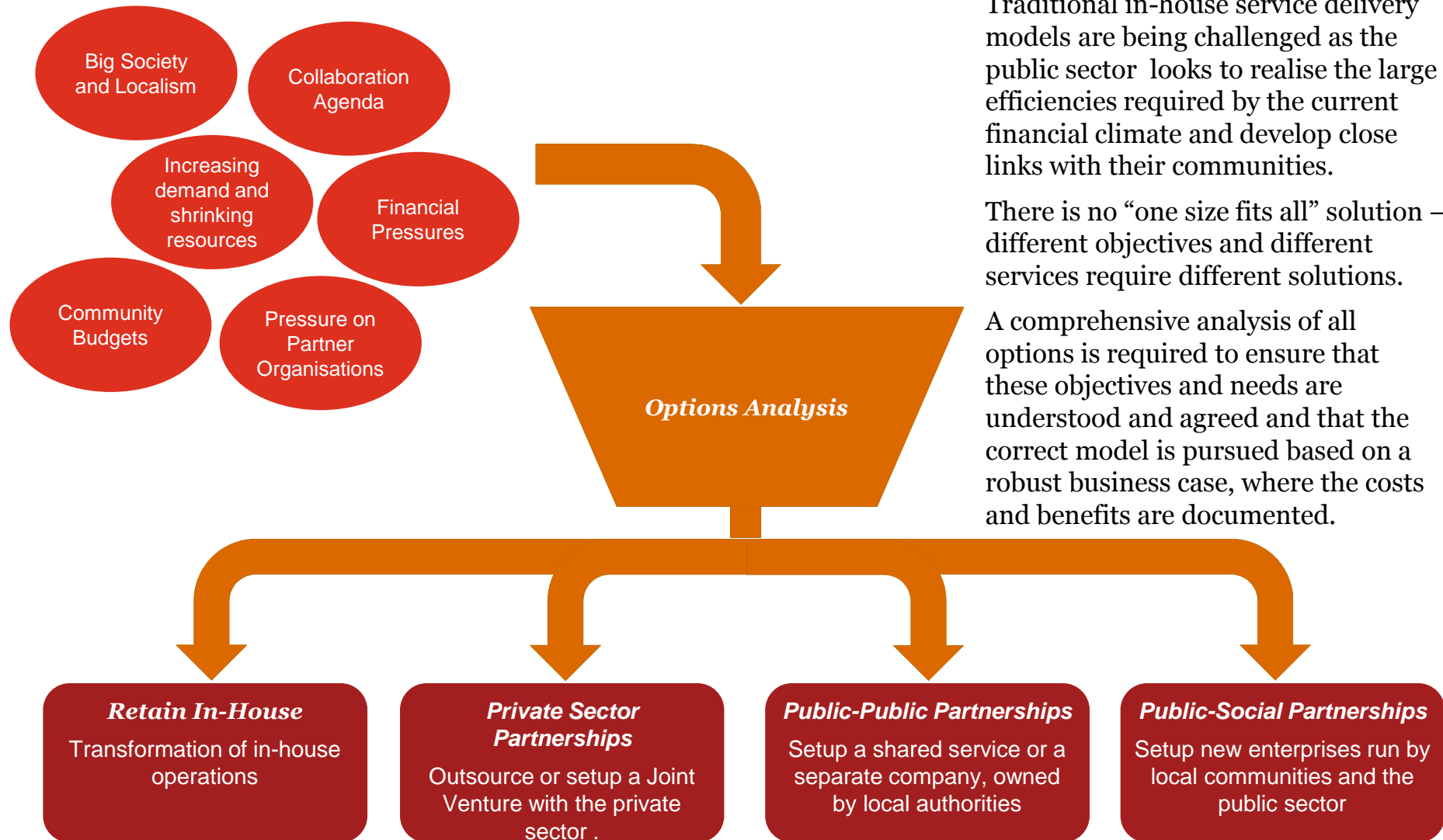


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# *Alternative Service Delivery Models & Social Enterprises*

5 December 2013

# Reviewing service delivery models is one element



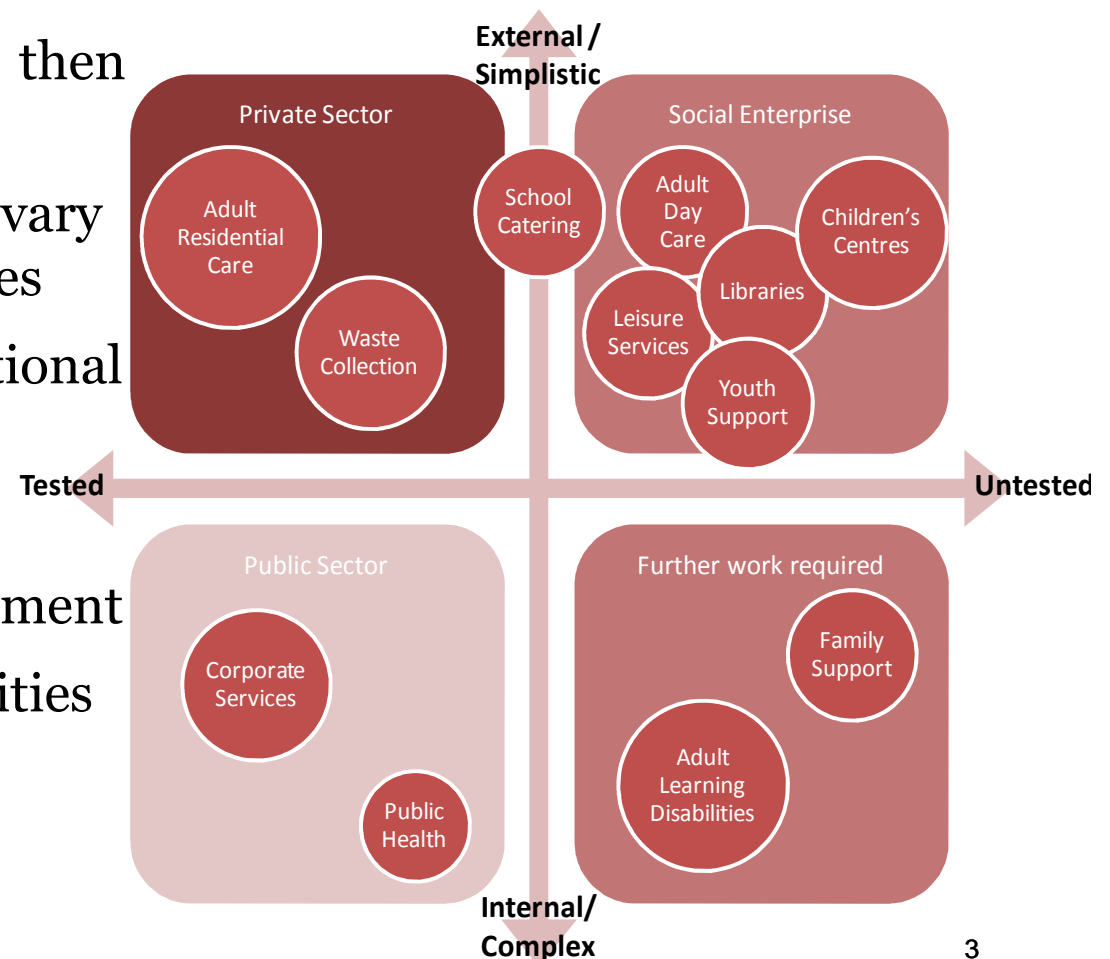
Traditional in-house service delivery models are being challenged as the public sector looks to realise the large efficiencies required by the current financial climate and develop close links with their communities.

There is no “one size fits all” solution – different objectives and different services require different solutions.

A comprehensive analysis of all options is required to ensure that these objectives and needs are understood and agreed and that the correct model is pursued based on a robust business case, where the costs and benefits are documented.

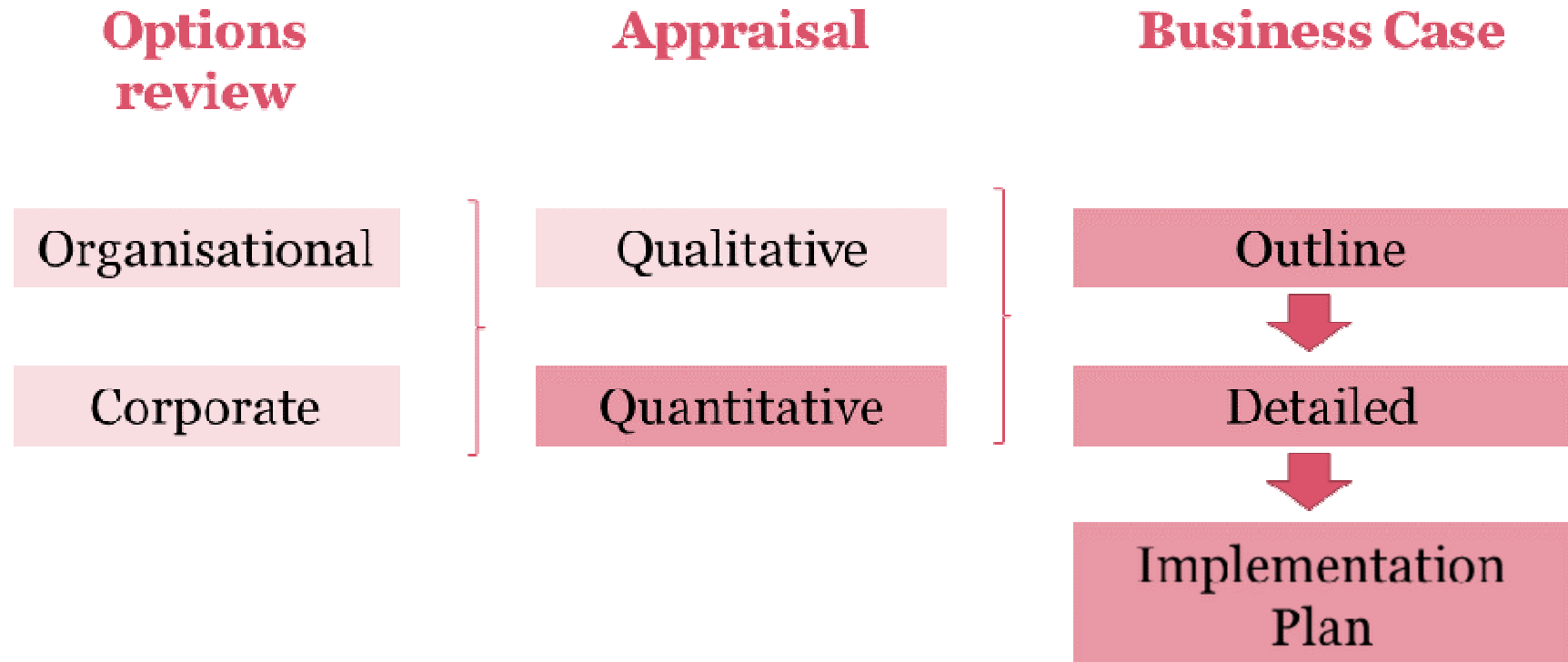
# Alternative Service Delivery Models

- First determine the vision
- Consider desired outcomes, then provider and process delivery
- The vision (or strategy) will vary across different local authorities
- Market conditions (both national and local) will influence
- Drivers for change?
- Financial v. service improvement
- Controls v. freedom/flexibilities



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**Selecting the right Service Delivery Model**  
**Outline approach to Strategic Options**



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## ***Developing the business case - key matters for consideration***

- **Strategy** – the strategy should drive and determine the need for a new form of service delivery model not vice versa
- **Drivers for change** – should form an integral part of the options appraisal and result in transparent (qualitative) evaluation criteria
- **Procurement** – will the services to be delivered be subject to open competition or will reliance be placed on the Teckal exemption AND what period of contract will be given (NB. on-going monitoring of the Teckal limits will also be required)
- **State Aid** – financial assistance in the forms of loans and/or cash flow arrangements , etc will need to stand the test of State Aid provisions
- **Property** – will ownership of the land and buildings remain with the local authority (in which case a minimum lease of 25 years will be required for the likes of a Charity)
- **Other assets** – will any other assets or stock be transferred to the Social Enterprise and at what consideration ( nil or market value?)
- **Financial case** (or quantitative appraisal) – the need for a robust financial (and tax) analysis to support the business case, which stands up to the test of any sensitivity (or risk) analysis

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## *Developing the business case*

### *Evaluation of options (qualitative)*

Potential criteria which could be used to evaluate each option could include:

- **Strategic Fit** – closeness of fit to current business plan vision /policy proposals (25%)
- **Employment** – will the solution be seen as staff friendly or beneficial? (20%)
- **Customer** – impact in terms of quality and range of service offer (15%)
- **Risk & Governance** – level of risk exposure and likely levels of future influence and/or control (15%)
- **Timetable** – likely timing and scale of effort required to implement change (10%)
- **Commercial & Investment (or Community Benefit)** – potential to develop new opportunities for income generation and provide a more commercial platform for future growth and/or social outcomes (15%)

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## ***Different forms of Alternative Service Delivery Models - Types of incorporation***

A number of different forms of Social Enterprise have emerged over time, some have been around longer than others (e.g. IPS or Charities) whilst others have emerged in more recent years (e.g. LLP and CIC).

In summary the different forms of Social Enterprise that exist include:

- Company (limited by share or guarantee)
- Community Interest Companies (limited by share and guarantee)
- Charity
- Community Benefit or Industrial Provident Society
- Cooperative
- Limited Liability Partnership

The term mutual is often referred to as a form of Social Enterprise but is in fact not a type of incorporation and rather one of the above, which involves some form of employee interest and/or benefit.

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## ***Implementation of a Social Enterprise***

### ***Key issues for consideration at the detailed business case***

In implementing a Social Enterprise (or any new form of service delivery model) there are a number of key issues which need to be addressed:

- **Management Agreement** – this represents the contract between the client authority (commissioner) and the Social Enterprise (service provider) and will need to specify the services to be provided, as well as cover intellectual and property rights, default and termination provisions, and where necessary any hand back arrangements
- **Management Fee** (or Service Charge) – the payment amount and arrangements to the Social Enterprise from the client (AVOID referring to this as a grant as will impact on VAT recovery)
- **Governance arrangements** – what will be the composition and voting rights of the Board (or Management Committee), will the Chairperson be an independent (or not) and what rights of control will be retained by the Public Sector (as commissioner and landlord)
- **Advice arrangements** – need for separate legal advisors (?) to aid independence and avoid conflicts of interest and how to resolve disputes (both during implementation and on-going)



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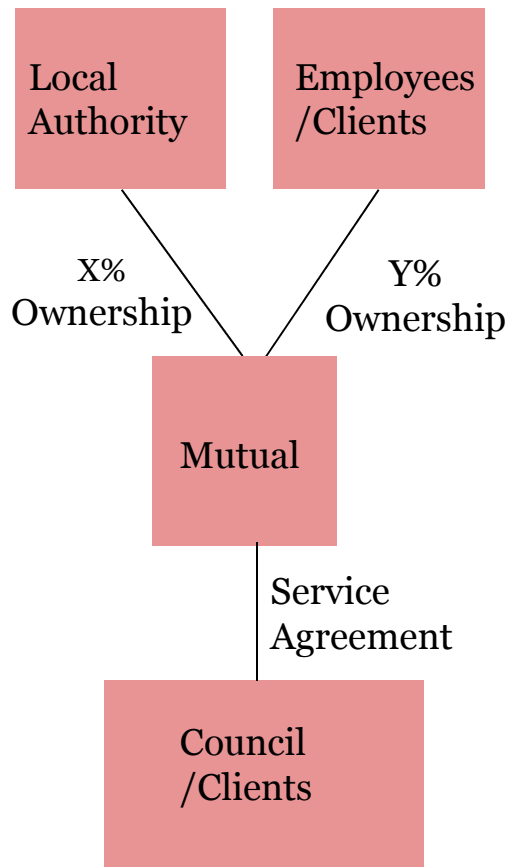
## ***Implementation of a Social Enterprise***

### ***Practical steps in setting up a new service delivery model***

There are a number of practical considerations which also need to be agreed upon:

- **TUPE and pensions** – arrangements for staff transfer and pensions (including dealing with the historic liability and the need for any bonds or guarantees)
- **Policies** – desire for standardisation v. need for flexibility in future
- **Financial systems** – will the Social Enterprise retain the existing financial systems or be allowed to adopt its own (at start-up or after an agreed period of time)
- **Financial management and controls** – need to adopt a framework to ensure financial stability and resilience (to protect against risk or business failure)
- **Corporate Support Services** – what will the buy-back arrangements be (if any) – consider buy, externalise or transfer
- **Skills and experience** – how to source and select new trustees/directors (think of the five key disciplines namely HR, finance, IT, legal and property)
- **Management** – critical importance of the Managing Director (or Chief Executive) and capacity and expertise of wider management team
- **Culture and identity** – the need for change and importance of independence

# Case Study – Mutual



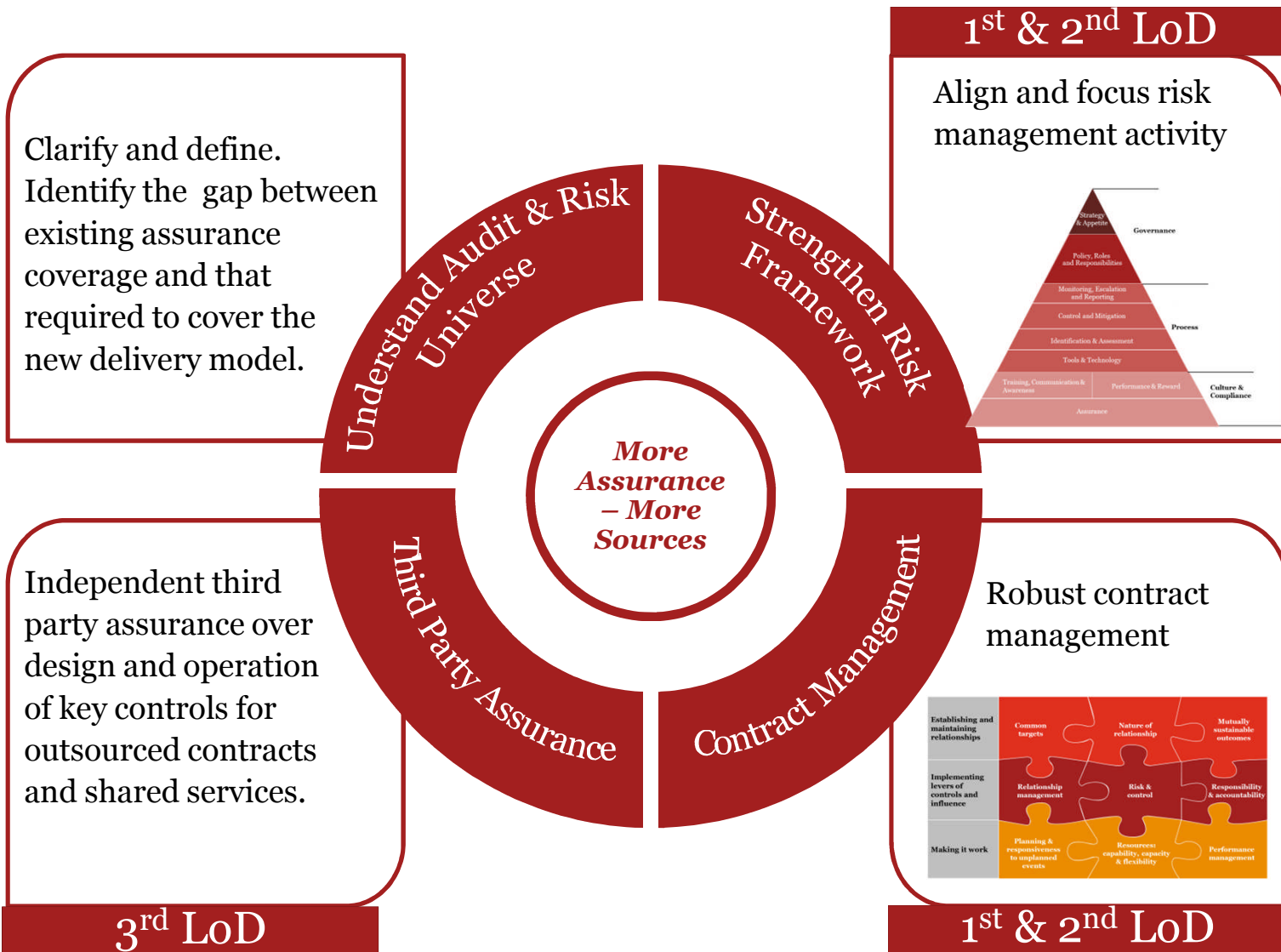
ASDM – Risk & Assurance considerations  
PwC

Objective	Key Issues
<b>Maximising cost effectiveness and delivering a return on investment</b>	<ul style="list-style-type: none"> <li>No legal construct. Organisation can take different corporate forms (society, company). Can trade for profit, but any surplus is returned to the members.</li> <li>Could achieve cost reductions in service due to scale increase or sharing of expertise with other public sector partners.</li> <li>Does not allow the Council to benefit from any additional revenues as any profit could not be redistributed. Vesting costs could be significant.</li> </ul>
<b>Maintaining or improving service quality</b>	<ul style="list-style-type: none"> <li>The ability to reward clients and employees directly through their shareholding or membership may improve services through incentivising them to accurately reflect user needs.</li> <li>The reduced ability to attract external private sector partners may limit the ability to provide service improvements.</li> </ul>
<b>Strategic Fit</b>	<ul style="list-style-type: none"> <li>Strategic control of the company is difficult for the Council to maintain as the shares would typically be owned by its employees or the users of the service.</li> </ul>

# Mutual – Risks and Impact on Assurance activity



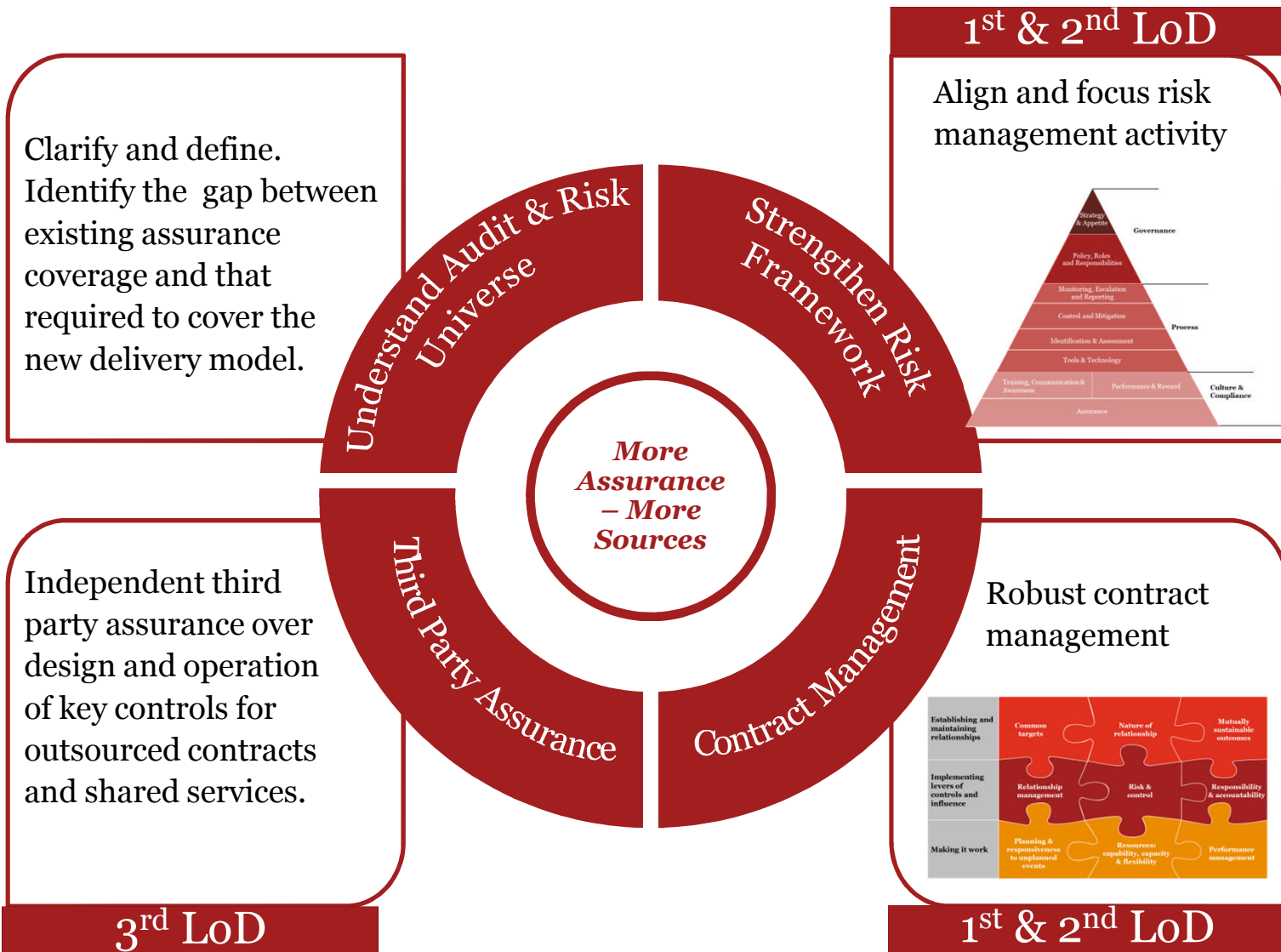
# Externalisation – Risks and Impact on IA



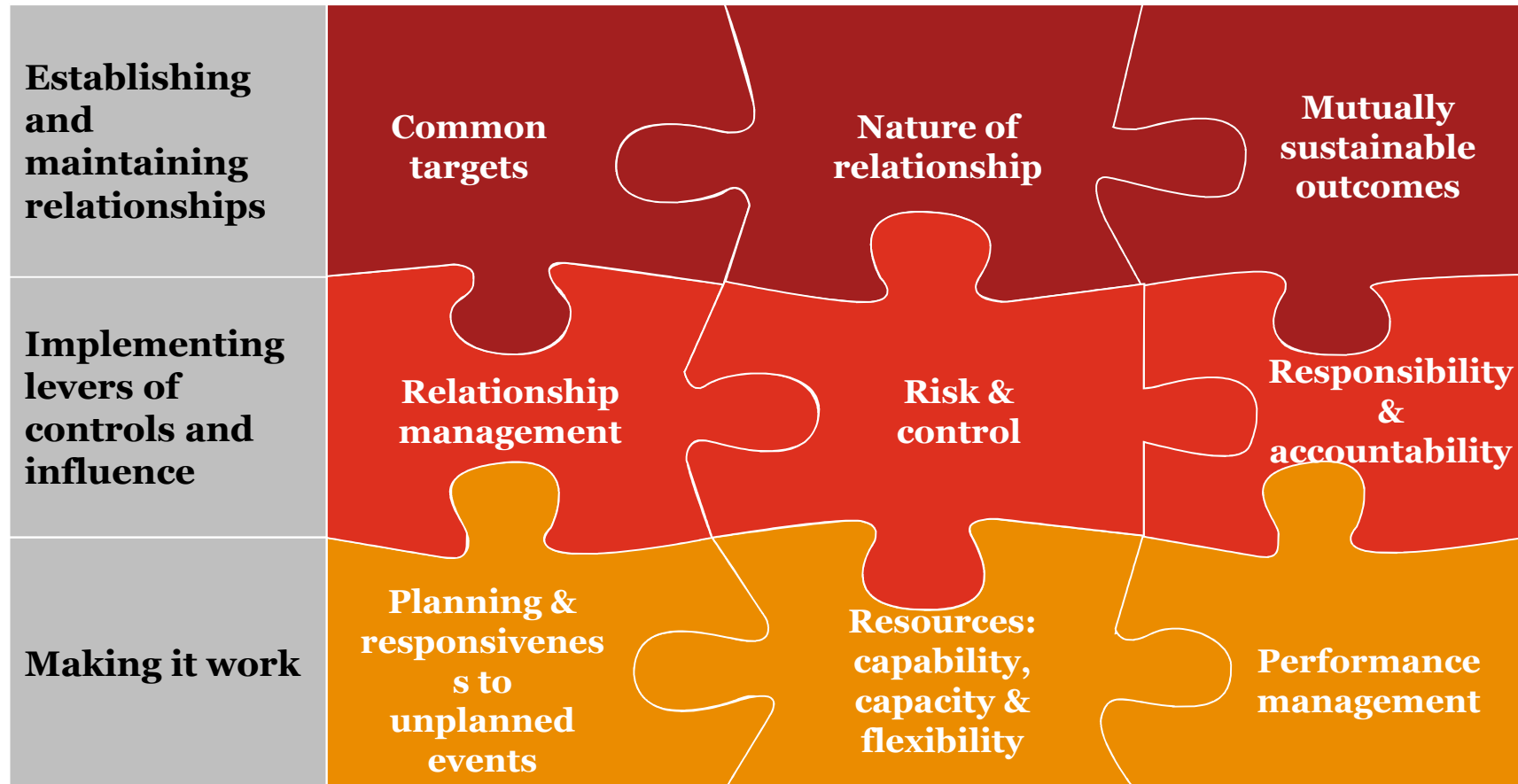
# Externalisation – Risks and Impact on IA



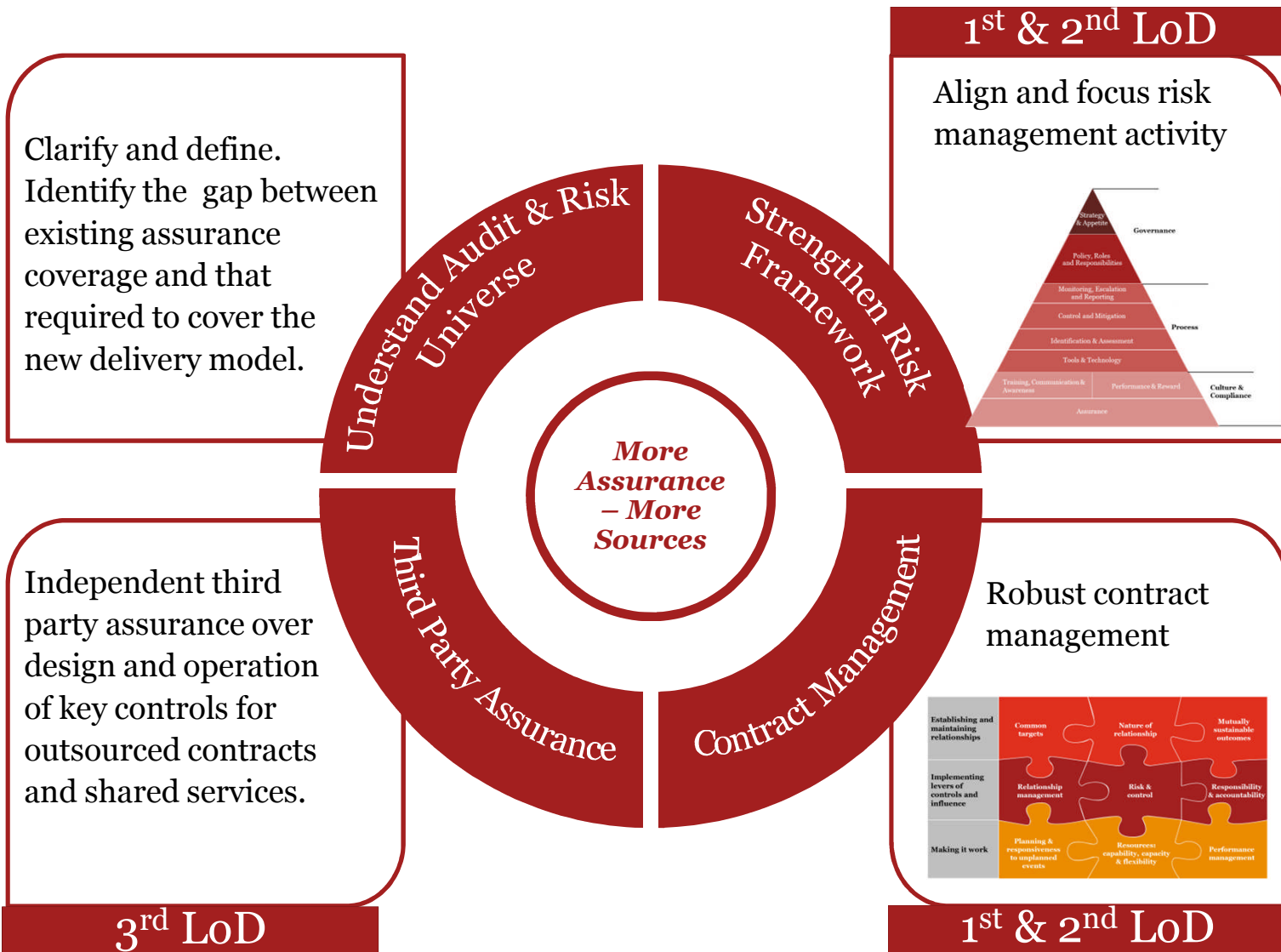
# Externalisation – Risks and Impact on IA



# ***Contracting – Risks and Impact considerations***

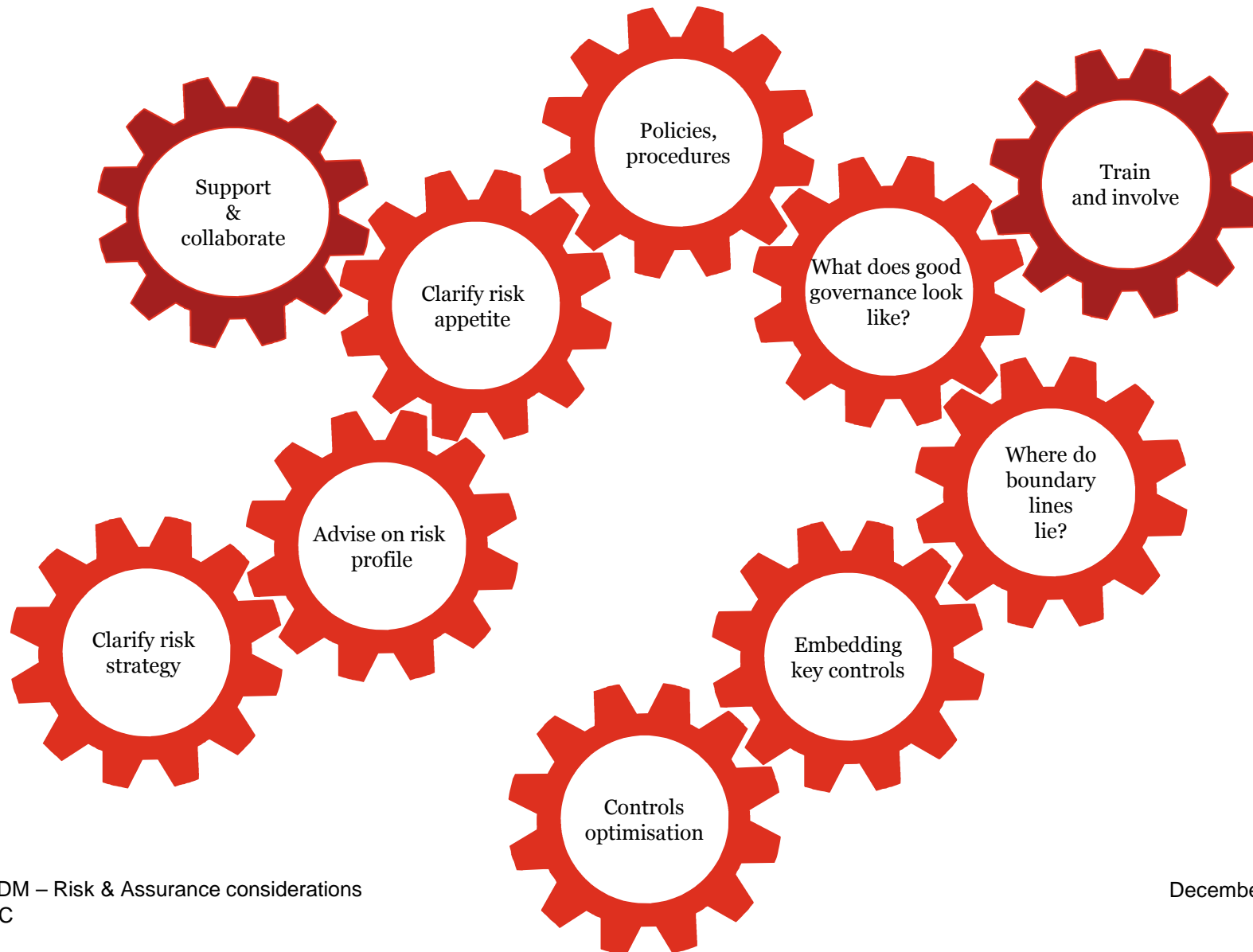


# Externalisation – Risks and Impact on IA





## *Risks to consider...*



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