

# enterprising journey for public monopolies

As the Government seeks to replace public monopolies with social enterprises, Paul Gosling examines the dangers lurking behind this transformation.

■ **The creation of a social enterprise unit in the Department of Health led to a big increase in the number of social enterprises providing health and social care services – and the setting-up of a similar unit in the Department for Communities and Local Government (DCLG) is likely to have a comparable impact.**

## social enterprise pathfinders

The Department of Health agreed 26 'social enterprise pathfinders' to show the type of activities that a social enterprise might undertake – operating more flexibly than a public body can and exempt from the financial returns demanded by the private sector. Pathfinder projects include MiLife that provides services for people with learning disabilities, including young adults moving towards more independent living. In Nottinghamshire, the Principia Partners in Health brings healthcare professionals together to improve local services.

Much of the interest in healthcare social enterprises was inspired by the experience of the Bromley-by-Bow health centre in East London, which accommodates about a hundred local community groups providing services for local people. The focus of the health centre is to provide services that improve the quality of life locally in a very broad sense. Within the centre is a 'social enterprise hub' of eight businesses, including a community cafe, a farmers' market and several arts projects – the health centre's GPs believe that improving the cultural life and employment prospects of local people will improve their overall health and

wellbeing. The pioneering work of the health centre was recognised by the Department of Health when it made one of the GPs, Dr Sam Everington, a national 'social enterprise ambassador'.

## DCLG's parallel unit

Following the success of the DoH's social enterprise unit, DCLG is establishing a parallel operation, to promote the role of social enterprises in community development and to provide services to local authorities. The initiative is likely to have a significant budget to support the development of local government social enterprises – DoH allocated £100m to social enterprise promotion.

DCLG's unit was given the go-ahead earlier this year and should be operational from the autumn. But the timing is difficult. Much of the initial demand for support may be from councils seeking help to overcome a decision of another government department. The Post Office is closing thousands of local branches, with thousands more at risk over coming years. Business Secretary John Hutton has told the Post Office to work with councils where they want these to be kept open. Many of those previously saved are now social enterprises, receiving ongoing financial support from local authorities.

## ECT break-up

The timing of the new unit also coincides with the break-up of one of the largest social enterprises in the UK. ECT Group had, in over

a quarter of a century, become a sprawling social enterprise empire, which began with Ealing Community Transport. It diversified to the point where it ran the London Transport number 195 bus service, three rail businesses (RMS, Weardale and Dartmoor), the Cuckoo Lane Health Care nurse-led practice, ECT Recycling and, through ECT Recycling, the Bryson Recycling joint venture, which is the largest doorstep collection service of recyclable materials in Northern Ireland.

But the ECT empire is unravelling. First, ECT's interests in Bryson Recycling were sold to its charitable partner, Bryson. The Cuckoo Lane Health Practice is leaving the ECT Group to operate independently. The three rail businesses are currently being disposed of. And ECT Recycling has been sold to May Gurney PLC. Local authorities that awarded recycling collection service contracts to a social enterprise, and expected them to be operated with an affinity with the council's policies, will instead find them being fulfilled by one of the sector's larger PLCs.

What is left of ECT Group will now revert to its original community transport function. "The company is taking the opportunity to refocus on its core business, i.e. community and passenger transport," says Mahua Nandi, ECT Group's Corporate Development Director. "I think it's fair to say that in recent years ECT's community transport has increasingly had to 'compete for attention' against the other various divisions, and probably outside observers would not even have described it as a transport business. We



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therefore very much welcome the opportunity we now have to focus 100% on transport.”

She adds that the receipts from the sale of ECT Recycling will be used to pay down the group’s debts, particularly on the rail and recycling sides of the business.

Jonathan Bland, Chief Executive of the main umbrella group in the UK, the Social Enterprise Coalition, insists that the experience of the ECT Group should not be seen as indicating that other social enterprises may convert into commercial businesses, or be bought by PLCs. “There were a number of unique circumstances around what happened with ECT and it is dangerous to extrapolate so much from their particular situation,” says Bland.

also vulnerable across other parts of the local government sector, as companies respond more aggressively to what they see as an emerging threat to their contract-winning opportunities. In particular, some local authority officers have privately expressed concerns that leisure trusts – which now run about 40% of councils’ leisure centres – will, when contracts come up for renewal, face loss-leading bids from companies keen to expand their geographical spread.

Bland discounts these anxieties. “Leisure trusts are an established social enterprise model, some of which have been operating successfully for 15 years,” he says. “I don’t see any reason to apply the ECT situation specifically to the leisure trust.” What is more, argues Bland, local authorities should consider

“ECT took what was likely a last resort option so it could maintain employment and be able to continue its contracts. Social enterprises are businesses in the same way private companies are – they will occasionally face difficulties and when that happens they will make the best decisions they can. ECT made a decision that protected its staff and the essential delivery of services they provide.”

#### vulnerable

But there are fears that social enterprises are

the discretion they have to take into account non-financial factors in awarding leisure management contracts. A similar plea is made by Unison, which points to guidance – *Buy and Make a Difference* – recently published by the Treasury that can be used to assist councils in taking non-financial factors into account.

But despite the Government’s desire to support social enterprises, there is little doubt that ECT’s problems will take some of the shine off the sector’s success story. ■

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## social enterprises – the basics

**Social enterprises** are businesses motivated by social objectives. Often described as ‘not-for-profit’, they typically seek to earn a trading surplus to reinvest in the business, or to distribute as part of their social mission.

**A key difference** between social enterprises and other businesses is their legal and financial structure, which is intended to protect their social purposes and should prevent social enterprises converting into profit-orientated businesses. But there is no shareholders’ equity and, without this, social enterprises can struggle for money.

**The Social Enterprise Coalition** is looking at ways to provide more dedicated sources of investment, while the Government intends to use some of the financial sector’s unclaimed assets to create an investment bank for social enterprises.