

Social Enterprise North West – Case study

TEACHING NOTES

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Teaching objectives and target audience

The aim of the case is to explore the issues around the DCLGs decision and to explore whether students think they did the 'right' thing. Students are presented with a decision that has multi-faceted impacts and are asked to compare and contrast these impacts and how it will be interpreted by different types of people affected.

Theoretical background to the case?

Since at least the 1970's and almost certainly before that, there has been a widespread belief that the public sector would be improved by the implementation of private sector management techniques. To this end a host of new public management initiatives have been implemented, each designed to meet perceived challenges to the public sector, and each based on the concept that market orientated management of the public sector will lead to greater cost efficiency for governments (Hood: 1991 Ferlie et al: 1996).

This has been done, mainly through introducing practices and programs, which have been developed within industrial organisation. As a result the practices taken on by the public sector have had almost as an *a priori* assumption the traditional 'goods logic', whereby an organisation's economic model can be seen as the monetisation of an exchange of goods.

Recently however academics have begun to view the creation of public services through a Service Dominant Logic perspective. Service Dominant Logic is predominantly a marketing theory which challenges the 'goods logic' by stressing the exchange of intangible resources such as relationships and service value (Vargo & Lusch: 2005). More recently this argument has been applied to the provision of public services. Authors here understand citizens not simply as end-users of services but also as the creators of value. In this sense the role of the public sector is to facilitate resources and/or through interaction to collaboratively co-create value. (Osborne et al: 2013; Radnor et al: 2014 Virtanen: 2014)

So what is 'success' for the public sector? In an organisation where profit is not a key indicator but that is funded by limited public sector resources what management techniques are most appropriate?

The case raises a number of interesting questions for students. There are no definitive answers and teachers should aim to allow students to explore a number of perspectives:

- Public Sector business models – what should be the core concern of public sector managers – effective business practice or delivery of service? Are they mutually exclusive? What is the role of business management and accountability within the public sector?
- Are the values of public service consistent with private sector management techniques?
- Do we need private sector management techniques if we are going to have effective public services?

- Is it the role of the state to develop 'enterprise'?
- Is the development of 'enterprise' (and the inherent probability of start-up failure) consistent with state auditors requirement for "tax payers money to be accounted for"?
- Where does 'blame' for this mistake lie? Whose responsibility is it to 'fix' it?
- What are the implications for the decision? Will it matter?
- What is the role of public relations in this issue?

The multi-faceted nature of the case means that it can be used with undergraduates and postgraduate students. Teachers should assess how far they wish to take the points raised depending upon the ability of their students and the focus of the course.

Learning objectives

The learning objectives are:

- To help students understand different ethical dilemmas that may emerge from seemingly small mistakes
- To develop students critical appreciation of the subjective nature of managerial decision making
- To enable students to think clearly about the relationships between the desire to deliver an effective service and the need to account for public money against business management measures.
- To allow students to explore the role of private sector management principles and techniques within organisations focussed on public service

Teaching approach and strategy

Teachers can use the case study in a number of ways including:

Class discussion: If the class is of sufficient ability and a size which makes discussion possible then teachers may choose to use the case study to stimulate a class discussion around the issues raised. Teachers may wish to give students the list of questions raised by the case or they may wish to allow students to arrive at these or other questions as part of the discussion.

Group work: With larger classes, teachers may wish to divide students into a series of sub-groups and give each group a question or series of questions to answer. Answers could then be fed back into a larger class discussion later in the session.

Scenario playing: A scenario is presented below these notes along with additional material for those classes where teachers think this is appropriate.

Further reading

A general library search for 'Public Services Management' will find a number of useful texts and perspectives but the direct references used above are:

Buchholz, T. (2007) *New ideas from dead economists: An introduction to modern economic thought*. Penguin.

Ferlie, E., Ashburner, L., Fitzgerald, L., & Pettigrew, A. (1996). *New Public Management in Action*. Oxford: Oxford University Press.

Hood, C. (1991) 'A Public Management for All Seasons', *Public Administration*, 69 (Spring), pp. 3-19

Osborne, S. Strokosch, K. (2013) 'It takes two to tango? understanding the Co-production of public services by integrating the services management and public administration perspectives.' *British Journal of Management* 24.S1 S31-S47.

Osborne, S., Radnor, Z, Nasi, G. "A new theory for public service management? Toward a (public) service-dominant approach." *The American Review of Public Administration* 43.2 (2013): 135-158.

Radnor, Z. Osborne, S. Kinder, T. Mutton, J. (2014) 'Operationalizing Co-Production in Public Services Delivery: The contribution of service blueprinting.' *Public Management Review* 16.3 pp. 402-423.

Vargo, S. L., & Lusch, R. F. (2004). Evolving to a new dominant logic for marketing. *Journal of marketing*, 68(1), pp. 1-17.

Virtanen, P. Petri Stenvall, J. (2014) 'The Evolution of Public Services From Co-production to Co-creation and Beyond—New Public Management's Unfinished Trajectory?.' *International Journal of Leadership in Public Services* 10.2

Press releases and articles about this case:

<http://www.senw.org.uk/eu-fiasco/>

<https://www.gov.uk/government/news/serious-breaches-found-in-spending-by-social-enterprise-north-west>

<http://www.liverpoolecho.co.uk/news/business/future-social-enterprise-north-west-8180870>

Supplemental role play exercise

Different tasks for the syndicate groups

The case study takes place in late November 2014, after the DCLG demand has been made public but before SENW have decided to cease trading. Students are asked to read the article and press releases below and form themselves into three groups:

- One student will take the role of Val Jones, the SENW CEO keen to highlight her organisations role, its local impact and to ensure their organisation remains solvent.
- Two students will be DCLG officials (one from the regional office and one from the national office) keen to highlight the importance of spending public monies wisely
- The remaining students will take the role of journalists asking questions of the students above.

The students will hold two press conferences during which they will ask searching questions of those representing SENW/DCLG. In order to frame their questions effectively students should:

- Acquaint themselves with UK/EU Government policy regarding the provision of business support
- Understand the nature of Social Enterprise and question whether such businesses should receive specific start up support
- Question whether it is the role of Government to support new start-up businesses
- Question what is special (if anything) about Social Enterprise
- Question the role of the EU in the provision of business support

Students representing journalists should not attempt to be neutral – they should decide beforehand which ‘side’ they support and their questions should be phrased appropriately. Following the press conference each student will be expected to write a short article outlining the case.

The case is intended to:

- Embed the understanding of business support mechanisms and the role of the state in economic development
- Develop student’s critical appreciation of the subjective nature of policy decisions and their impact on businesses and individuals.
- Enable the students to engage with concepts of Social Enterprise, how it is defined, what it is, whether it is worth supporting?



Systemic failures within Department for Communities and Local Government are to blame for loss of millions of pounds of EU funding for the region.

Social Enterprise North West (SENW), the region's lead body for social enterprise, has become the victim of bureaucratic wrangling within the Department for Communities and Local Government (DCLG) in the North West. Due to a departmental blunder, millions of pounds of European funding for business start-up and enterprise support for disadvantaged communities has now been lost from the Liverpool City Region. As a direct consequence, several of the region's social enterprises face large scale redundancies and closure.

SENW, the lead body in the European funded Big Enterprise in Communities programme, is to be issued with a demand note to pay back £1,472,653 of grant funding because civil servants cannot agree on funding rules. SENW has been successfully delivering support to individuals and social enterprises based on a delivery model that was both agreed with and later successfully audited by DCLG's own North West European Programmes audit team. National auditors have now interpreted the rules differently leading to the demand for repayment by SENW.

Val Jones, CEO of SENW stated:

"I am both shocked and disgusted at the incompetence of DCLG whose wrangling between national auditors and the North West civil servants has led to this devastating decision. This is not SENW's liability and this high handed action has wider impacts in terms of the delivery of current and future EU programmes. It calls into question whether local civil servants have the competence required to manage European funds on behalf of the people of the North West."

The Big Enterprise in Communities programme has been hugely successful in supporting enterprising individuals from disadvantaged areas and under-represented groups within the Liverpool City Region and in providing expert business support to the Social Enterprise sector. Delivery of the programme is through a number of organisations (predominantly Social Enterprises) across the Liverpool City Region. Through no fault of their own, and after delivering a highly successful service, the premature closure of the programme now places these Social Enterprise organisations, as well as SENW, at risk of closure.

The impact of DCLG's incompetence in the North West has a much wider impact than the mere closure of a funding stream. Big Enterprise in Communities was a foundation that enabled SENW to leverage much needed finance into the City Region. In particular, the future of the Local Impact Fund for the Liverpool City Region, and a much needed investment of £2million for Social Enterprises, will be placed in jeopardy.

Dave Roberts, the Chair of SENW stated:

“The Board Members of SENW have been placed in an impossible position by DCLG in the North West. Under the instruction of DCLG, the model was used in good faith to deliver a successful EU programme for 3 years, and the model is not dissimilar to Lancashire’s current business support project. SENW have questioned DCLG as to why they are now being penalised for using a model developed based on the advice of DCLG themselves, but have received no response. The impact of this debacle will have disastrous implications for the Liverpool City Region and particularly for social enterprise businesses.”

To the end of September 2014, the BEiC programme has delivered pre start up support to 3293 individuals, resulting in 1301 new businesses being started within the region. It has created 1292 jobs, and safeguarded 107. It has also assisted 249 businesses to improve their performance.

The impact of ceasing the BEiC programme will undoubtedly have disastrous consequences and far reaching effects:-

- The Liverpool City Region will miss out on around £4.5m in ERDF and match funding;
- SENW will close in a matter of days due to unrecoverable costs against the programme, not to mention the redundancies that will be caused to 16 partner organisations;
- The closure of BEiC will have catastrophic effects upon SMEs in the Liverpool City Region;
- The closure of BEiC will withdraw a key source of start up support within disadvantaged communities and under-represented groups within the Liverpool City Region;
- A number of newly procured partner organisations for the final year of the programme have worked on BEiC “at risk” for a number of months. Their costs will now not be paid due to DCLG’s decision to cease payments;
- DCLG setting this precedent not only affects SENW and BEiC delivery organisations, but also has wider reaching ramifications on the Voluntary, Community and Social Enterprise sectors engagement and delivery of future EU programmes.



Department for
Communities and
Local Government

Press release

Serious breaches found in spending by Social Enterprise North West

From: Department for Communities and Local Government and Lord Ahmad of Wimbledon
First published: 26 November 2014

Part of: Supporting economic growth through managing the European Regional Development Fund and UK economy . . .

Department for Communities and Local Government issues demand notice to claw back £1.4 million of taxpayers' money.

A demand notice has been issued on Social Enterprise North West (SENW) to recover £1.4 million of public money after serious irregularities in its accounts were uncovered.

The money forms part of a grant given to SENW to run a business advisory service in Liverpool called the Big Enterprise in Communities project (BEiC).

Launched in January 2012, the project, run by SENW together with 17 supporting organisations, received a total of £3.79 million from the European Regional Development Fund, administered by the Department for Communities and Local Government (DCLG) on behalf of the British taxpayer.

However in July 2014, an audit carried out by the Audit Authority in accordance with European Commission rules identified serious breaches in the project's accounts.

Under the terms of European grant funding, SENW is required to show how all public money it has received for the BEiC project has been spent.

Failure by the SENW to do so has forced the DCLG to take action to recover the money, by issuing a demand notice.

Communities Minister Lord Ahmad said:

"I accept that European Commission rules can be very bureaucratic but in this case they are perfectly clear – failure to provide evidence of how money is spent puts the funding at risk."

"The DCLG has a clear obligation to make sure every pound of taxpayers' money is properly accounted for. It is totally unacceptable that SENW cannot provide proper accounts for £1.4 million worth of public money."

The DCLG's demand notice will not seek to reclaim any of the money from BEiC's 17 supporting organisations, who operated in good faith throughout.

With just 6 months of the grant funding to go, the BEiC project has already exceeded initial expectations – providing 3,128 businesses with start up support in Liverpool and the surrounding area.

Anyone thinking of starting up a business in the area should contact the new Advice Finder Service , run by Liverpool City Region Local Enterprise Partnership. It can provide details of 75 other business advisory agencies in the area delivering more than 300 services.



Nov 27th 2014: By **Tony Donough**

Department for Communities and Local Government accuses agency responsible for funding enterprises across Merseyside of having 'serious irregularities' in its accounts

Social enterprises and small firms in Merseyside are facing a “disastrous” shortfall in funding after the Government demanded the repayment of more than £1.4m of grant money already given out.

In the last three years the Big Enterprise in Communities (BEiC) programme has delivered pre-start up support to 3,293 individuals, resulting in 1,301 new businesses being started within the city region.

It has created 1,292 jobs, and safeguarded 107 and has also assisted 249 businesses to improve their performance.

Social Enterprise North West (SENW) is the lead agency responsible for giving out the money under a formula agreed with the Department for Communities and Local Government (DCLG) in the North West.

However, national Government auditors now say that formula was incorrect and are demanding that SENW pay back the money within 30 days.

Chief executive Val Jones has told ECHO Business that the future of SENW itself and jobs within 17 partner organisations, were now under threat. She also said it means that millions more that could have been secured under match funding would also now not be available.

She said: “I am both shocked and disgusted at the incompetence of DCLG whose wrangling between national auditors and the North West civil servants has led to this devastating decision.

“This is not SENW’s liability and this high-handed action has wider impacts in terms of the delivery of current and future EU programmes. It calls into question whether local civil servants have the competence required to manage European funds on behalf of the people of the North West.”

However, in a statement the DCLG accused SENW of having “serious irregularities” in its accounts. And it pledged it would not be seeking to reclaim money from the 17 support organisations who it said had “operated in good faith”.

The statement said: “In July 2014 an audit carried out by the Audit Authority in accordance with European Commission rules identified serious breaches in the project’s accounts.

Under the terms of European grant funding, SENW is required to show how all public money it has received for the BEiC project has been spent.

“Failure by the SENW to do so has forced the DCLG to take action to recover the money.”

Communities Minister Lord Ahmad added: “I accept that European Commission rules can be very bureaucratic but in this case they are perfectly clear – failure to provide evidence of how money is spent puts the funding at risk.

“The DCLG has a clear obligation to make sure every pound of taxpayers’ money is properly accounted for.”