

Social Enterprise North West – Case study

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Introduction

This case study focuses upon a recent decision by the Department for Communities and Local Government to 'clawback' £1.4m of European Regional Development Funding which had been awarded to the infrastructure support organisation Social Enterprise North West (SENW). The decision followed a review of the programme SENW had put in place to support the development of social enterprises throughout its region and led to SENW ceasing to trade on 31st December 2014.

The case study highlights the issues around private sector management techniques being applied within the public sector. It will allow you to examine the nature of this decision and the role of the various actors involved.

Details of the case

Social Enterprise North West (SENW) was a regional infrastructure organisation tasked with developing social enterprise in the North West of England. It ran projects directly, organised a series of sub-regional organisations throughout the North West and aimed to:

- Raise the profile of social enterprise in the North West of England.
- Represent the interests of the North West of England's social enterprise sector.
- Encourage mutual support, inter-trading, sharing of best practice, training and development opportunities between social enterprises.
- Work with local, regional, national and transnational bodies to strengthen the social enterprise sector.

It was originally established under the auspices of the North West Regional Development Agency. However, when the Regional Development Agency was closed down as one of the first acts of the coalition government in 2010, SENW sought to act independently and bid for a number of large contracts to deliver European Union (EU) funded business support services. Although such projects use European Union monies they are administered in the UK by the Department for Communities and Local Government (DCLG) on behalf of the EU.

One project which SENW won was Big Enterprise in Communities (BEiC). Operating from 2012, this was a £6.6m initiative funded through the European Regional Development Fund (ERDF) and aimed to stimulate enterprise in disadvantaged communities and [amongst] under-represented groups. SENW was the lead agency for the project although it used a number of other "delivery organisations" to deliver business start up support to individuals, and business advice and support to social enterprises. The delivery organisations were:

- CHARA Trust
- Granby Toxteth Development Trust
- Greenbank
- Halton & St Helens Voluntary and Community Action
- Knowsley Council for Voluntary Service
- Merseyside Expanding Horizons
- Muslim Enterprise Development Service
- SAFE Productions
- South Sefton Development Trust
- The Prince's Trust

- The Women's Organisation

Because the funding was limited to specific disadvantaged communities it only operated within those wards in Greater Merseyside that had been identified as being particularly disadvantaged according to the Office of National Statistics Index of Multiple Deprivation.

BEiC operated through a five-stage process:

- Stage One: (Pre) Pre-Start Up Awareness Raising Workshops (Community Engagement)
- Stage Two: Pre-Start Up Group-based Workshop Support & Action Planning
- Stage Three: Business Creation Start Up Assistance, including Business Planning
- Stage Four: Social Enterprise Intermediate Business Development Support
- Stage Five: Social Enterprise Intensive Support – Growth, Income & Diversification

The programme was agreed by DCLG representatives in the North West. It is important to realise that European Union money is extremely onerous to deliver. There is a very prescriptive list of what it can and cannot be spent on, all monies must be spent by the organisation first and then claimed back later and claiming it back is a complicated process. EU audits can take place at any time and the threat of claims for monies not being met and/or the 'clawback' of monies paid out if it is later found to have been paid incorrectly is made explicitly clear at all stages of the application and awarding of contracts. Therefore many official advisors, such as DCLG representatives in the North West, are reticent to ever fully approve any delivery programme and it is not unusual for them to approve programmes subject to a potential full audit at a later stage. This is partly because they are not official auditors and do not want to put themselves at risk of legislative challenge if they make a definite statement. However, because EU rules are extremely complicated and sometimes contradictory, local civil servants simply don't know them all. This means that all organisations who are experienced in spending EU monies, such as SENW, know that they are entering an extremely complicated contract with high levels of risk. Nevertheless, historically, actual clawback of monies spent in good faith (i.e. spent 'reasonably' on delivering the project even if not technically in line with spending rules) has been very rare.

However, in November 2014, following an audit in July of that year, the DCLG issued a demand notice to SENW to recover £1,472,653.43 after claiming to have found "serious irregularities" in their accounts. The DCLG claimed that SENW had failed to account for how all the money had been spent.

SENW counter-claimed that they had acted in good faith throughout the project and stressed that they had adopted a design and delivery model proposed by senior DCLG officers, which had been approved during the application process. Moreover, they stressed that the delivery organisations had used a commercially contracted unit price model (i.e. £ per social enterprise engaged with) dictated by the DCLG.

SENW also claimed that they had been told that the 'irregularities' lay not with them but with the spending of one or more of the delivery organisations. SENW further claimed that the DCLG had never provided SENW with any details as to why the expenditure tested was not acceptable and therefore SENW have never been given the opportunity to address these issues. They argued that the non-disclosure of reasons and/or concerns that that DCLG had with the information provided by SENW breached public law principles and natural justice requirements.

Furthermore, the DCLG's North West officers had not raised any irregularity issues at their audit of the BEiC programme, and had paid claims over a period of 30 months without issue.

On this basis, they argued, responsibility for any financial correction should be taken by the DCLG and was not SENW's liability.

DCLG did not respond to these claims and a special board meeting of SENW held in December 2014 decided that:

1. SENW were indeed legally liable for any monies spent not in strict accordance with their contract with the DCLG
2. Although they could technically have passed on responsibility to pay the clawback to the delivery organisations, those organisations had already spent the money and could not pay it back to SENW
3. Therefore, in order to avoid forcing the delivery organisations into insolvency, SENW would accept liability and cease to trade

What are we asking you to do?

The aim of the case is to explore the issues around the DCLG's decision and to discuss whether you think they did the 'right' thing. You should take into account the multi-faceted nature of the impact of their decision and how it will be interpreted by the different types of people affected.

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>



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.”