EXPLANATORY MEMORANDUM TO

THE HEALTH AND SOCIAL CARE (FINANCIAL ASSISTANCE) REGULATIONS 2009

2009 No. 649

1. This explanatory memorandum has been prepared by the Department of Health and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

These regulations establish conditions that a qualifying body must meet in order for the Secretary of State to provide it with financial assistance under the Health and Social Care Act 2008 (“**the 2008 Act”**). These regulations will ensure that financial assistance is only given to those social enterprises with primarily social objectives, and who reinvest their surpluses or profits into the community, or into a service with social benefits.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Context

4.1 Sections 149-156 of the 2008 Act makes provision for the Secretary of State to provide financial assistance related to the provision of health or social care services. Section 149 of the Act permits the Secretary of State to give financial assistance to qualifying bodies.

4.2 Section 150 of the 2008 Act prescribes the kind, and/or activities, of a qualifying body. Specifically, the body’s activities must be carried out for the benefit of the community (s150(1)(a)), it must satisfy prescribed conditions relating to distribution of profits (s150(1)(b)), and it must be carrying on a business (s150(1)(c)). The 2008 Act also provides that other conditions may be prescribed (s150(1)(d)).

4.3 These Regulations are made in accordance with section 150 and sections 161 & 162 of the 2008 Act to clarify the requirements of section 150 and prescribe further conditions where applicable. Regulations also specify activities which are not to be treated as activities carried out for the benefit of the community in England (s150(2)(b)).

4.4 These Regulations ensure that a qualifying body is a social enterprise, namely businesses with primarily social objectives, who reinvests their surpluses or profits into the community, or into a service with social benefits.

5. Territorial Extent and Application

5.1 The territorial extent is England and Wales.

5.2 This instrument allows the Secretary of State to provide financial assistance to bodies engaged in the provision of Health and Social Care Services in England only.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.3 The Department of Health's 2006 White Paper, "Our health, Our care, Our say" ("**the White Paper"**) included a commitment to support and encourage social enterprises in health and social care.

7.4 There is no single definition of a social enterprise and there are many legal forms. However, a general description would be 'businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community'.

7.5 In the White Paper, the Department identified lack of access to finance as a barrier to the development of social enterprises. To address this, the Department made a commitment to establish a fund within its budget to support social enterprises delivering health and social care. This fund, the Social Enterprise Investment Fund ("**the SEIF"**), was established in August 2007 as a means of facilitating access to finance for social enterprises and to provide support for business start-ups. The SEIF is currently operated internally by the Department.

7.6 While it has been possible to open the SEIF and provide grants and loans in certain circumstances, existing powers were not sufficient to allow further development of the SEIF. Specifically, it was not possible to provide a full range of different investments (such as grants, loans and quasi-equity) to different types of qualifying organisations, or to appoint an expert fund management body.

7.7 The policy objectives set out above could only be achieved by introducing new legislation allowing the Secretary of State to provide financial assistance to social enterprises. This power is now provided for in the 2008 Act. As there is no legal definition of a social enterprise, the 2008 Act does not refer to "social enterprises" but sets out the types of organisation that the Secretary of State may fund as qualifying bodies (although not specific legal forms). These organisations will have to undertake activities that benefit the community and have restrictions on the distributions of their profits. The 2008 Act, with these Regulations, details the conditions that a body must meet in order for the Secretary of State to consider providing it with financial assistance.

7.8 The Regulations fulfil the policy objectives above by clarifying the conditions that a body must meet for it to be a "qualifying body" under the 2008 Act.

7.9 The Social Enterprise Coalition ("**SEC**"), which is a representative body for social enterprises, has been in close contact with the Department of Health throughout the passage of the 2008 Act and in relation to these regulations. SEC fully supported the 2008 Act and fully supports the Regulations.

7.10 Section 154 of the 2008 Act allows the Secretary of State to delegate the power to give financial assistance under section 149. The Department has procured an external fund manager ("**the Fund Manager**") who has the requisite commercial and fund management experience to provide the full range of "financial assistance" and business support to social enterprises. The Fund Manager will be given the power to provide financial assistance, and perform functions associated with such financial assistance, in accordance with section 154. The Fund Manager will be in place on 1 June 2009 and will work closely with officials in the Department of Health to ensure that the policy objectives are achieved.

8. Consultation outcome

8.1 The Department consulted with SEC (which consults with social enterprises), the Office of the Third Sector, the CIC regulator, social enterprise legal experts and social investors. Consultation on the regulations began in December 2007 during the passage of the Health and Social Care Bill through Parliament, and recommenced in November 2008.

8.2 As a result of the consultation, the original drafts of the Regulations were simplified to ensure that the conditions in the regulations did not introduce an additional burden on social enterprises.

9. Guidance

Guidance is currently being produced to assist the Fund Manager in applying the regulations. This guidance will be in place by 1 June 2009 and will be reviewed regularly by the Department.

10. Impact

10.1 The impact on business, charities or voluntary bodies is that those organisations which meet the definition of "qualifying body" in the legislation will have access to financial assistance available through the SEIF.

10.2 The impact on the public sector is that there could potentially be a greater number of providers of health and social care services leading to a transformation in services and greater choice for health and social care commissioners.

10.3 We do not believe that the regulations introduce an additional burden as we already request supporting information from SEIF applicants. When assessing applicants to the SEIF we require that they provide us with "due diligence" information, including, for example, the body's constitution, accounts for last three years, and the trustee or board composition. This information is reviewed by the current SEIF fund manager to ensure that the body meets the definition of social enterprise set out at 7.4 above.

10.4 An Impact Assessment has not been prepared for this instrument as the regulations simply provide further clarification of the Powers contained in the 2008 Act. Although the detail of these specific rules and conditions were not set out for the original impact assessment, the wider policy has not changed.

10.4.1 A full Impact Assessment of social enterprise measures was produced for the passage of the 2008 Act. That Impact Assessment is attached to this memorandum.

10.4.2 The financial assistance provisions of the 2008 Act were "non-controversial", in that they received full support from all stakeholders and the provisions passed through the House of Commons and House of Lords with no proposed amendments to the original draft clauses.

10.4.3 The Regulatory Impact Assessment produced for the 2008 Act stated:

> "All the Social Enterprises supported by the SEIF would be expected to have "not-for-profit" status in that surpluses will be reinvested in the pursuit of their social aims."
>
> …
>
> "… the clauses" (in the 2008 Act) "will not refer to "social enterprises" but will set out the types of organisation that the Secretary of State can fund (although not specific legal forms). The organisations will have to undertake activities that benefit the community and have restrictions on the distributions of their profits."

10.8 The Regulations merely expand upon the conditions in the 2008 Act and do not introduce new provisions.

10.8.1 The RIA requires that Social Enterprises supported the organisations will have to "undertake activities that benefit the community". This is achieved in the 2008 Act by specifying that for a body to qualify for financial assistance under section 149, it must pass a community interest test (sections 150(1), 150(2)(b) and 150(3)). Implementing a community interest test involves reviewing the organisation's constitution to check for relevant provisions. This is set out at regulation 7.

10.8.2 The RIA states the organisation must "have restrictions on the distributions of their profits". The 2008 Act provides that a body may only qualify for financial assistance if it meets a condition concerning distribution of profits (section 150(1)(b)). Implementing a restriction on distribution of profits involves reviewing the organisation's constitution to check for the necessary restriction. This is set out at regulation 5.

10.8.3 The 2008 Act also provides for further conditions to be prescribed under section 150(1)(d). These include conditions as to the distribution of assets on dissolution or winding up (regulation 8). Each regulation operates in a similar way to that described above.

11. Regulating small business

11.1 The Regulations apply to small business only to the extent that they are a "qualifying body" and wish to apply for funding from the SEIF. The SEIF's remit includes encouraging start ups and providing financial assistance to small social enterprises which often can not access finance through traditional routes.

11.2 Small businesses have been consulted through our engagement with SEC (as described in section 8 above).

12. Monitoring & review

12.1 The SEIF has been set up to support social enterprises in achieving improvements in health and social care. Measuring the impact of social enterprises in receipt of financial assistance from the SEIF is therefore important. While the Department wants to see some financial returns to encourage the sustainability of the SEIF investees, it is the social returns they bring that is the Department's focus.

12.2 Measuring financial returns is comparatively straightforward. However, social returns are difficult to quantify and measure.

12.3 Social Return on Investment ("**SROI**") is a technique which identifies and describes the social value being created through an organisation's activities (and the investment needed to deliver them). Uniquely, it seeks to place a financial value on this social value. Using a set of financial accounting principles and standard calculations, SROI analyses produce, as part of a wider report, an "index of social return". An index of ":1 shoes that for every £1 invested, £2 worth of social value is returned.

12.4 The Department is therefore testing the SROI tool on current recipients of SEIF funding.

12.5 The Fund Manager services will be monitored through a number of measures, including Key Performance Indicators. This will have the effect of monitoring the regulations, as the information fed back from the KPIs will capture the types of social enterprise invested in and the methods of finance used. The KPIs are:

- Start-ups - The number of recipients of Investment (including in-kind grants) that have received less than £20,000 from any source prior to investment by the SEIF ("start-up investments"), that are still trading or are actively advancing the enterprise for which they received the investment twenty-four months after the date of investment, minus the number of start-up investments that have ceased to trade or are not actively advancing the enterprise for which they received the investment twenty-four months after the date of investment.

- Growth - measures the effectiveness of the SEIF in assisting social enterprises to develop into long-term sustainable enterprises by helping them to progress up the ladder of investment and support available from social investors, or directly to increase turnover or develop contracts with NHS, local authority and other public sector commissioners

- Innovation - There are two Parts to the Innovation KPI:
    - Part One: the percentage of Agreements to Invest (measured by number) using financial products or including business support services assessed by the SEIF Innovation Reference Group (see basis of measurement set out in clause 4.3) to be fit for purpose, value for money and not widely available to health and social care social enterprises from other sources;
    - Part Two: the number of such financial products and business support products used for the first time by the Fund Manager.

- Innovative Services - measures the proportion of Investments that are in social enterprises developing innovative services or delivery approaches that offer potential for very high longer-term social returns.

- Customer Satisfaction - measures the level of satisfaction of the SEIF's customers (both applicants and Beneficiaries) with the "key touch points" of the SEIF's services.

- Financial Sustainability - This KPI sets the threshold for the annual rate of loss or permanent impairment in value on Investments above which a Service Improvement event would occur. The Preliminary target for the Financial Sustainability KPI will be that the annual rate of losses on the average value of non-grant Capital Investments shall not exceed 15%.

13. Contact

Amitti CanagaRetna at the Department of Health, Social Enterprise Unit Tel: 0113 2545718 or email: amitti.canagaretna@dh.gsi.gov.uk can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
Department of Health	**Impact Assessment of Social Enterprise measures in Health and Social Care Bill 2007**	
Stage: Final Proposal	**Version:** 3	**Date:** 16th November 2007

Related Publications:

White Paper 'Our health, our care, our say: a new direction for community services', January 2006.

Available to view or download at:

http://www.dh.gov.uk/healthandsocialcarebill

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What is the problem under consideration? Why is government intervention necessary?

The Government wants high quality public services; tailored to the needs of communities. The White Paper 'Our health, our care, our say' identified social enterprises (SEs) as a key means for delivering better, more responsive health and social care. However, the evidence suggests that:

- SEs have difficulties accessing high risk investment;
- There were barriers for SEs obtaining equity finance due to their social mission;
- The social returns from SEs are not sufficiently taken into account by commercial lenders.

What are the policy objectives and the intended effects?

The Government's vision is to create a provider market that is increasingly plural and diverse, including the emergence of SEs. This diversity will provide more choice to patients and services users; allowing commissioners of health and social care services to drive up quality and to reduce inequalities. These are the ultimate objectives of policy. However, the development of SEs in health and social care will require access to finance. The Social Enterprise Investment Fund (SEIF) is to stimulate the growth of the SE sector in health and social care through financial support; an intermediate objective.

What policy options have been considered? Please justify any preferred option.

Other options considered were:

- Do nothing;
- Provide information and raise awareness of SEs only;
- Offer business support only.

The preferred option, however, funding SEs offers a means of providing an immediate stimulus to the SE sector, as well as addressing the commercial finance gap for SEs.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? We are currently evaluating 26 SE pathfinder organisations. This evaluation started in August 2007, will last for two years, and will inform a linked evaluation of the SEIF. See plan attached.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: Date: 16th November 2007

Summary: Analysis & Evidence

Policy Option: Social Enterprise Investment Fund	Description: To allow social care providers to be treated equal to those deliverng health care, and to manage the Fund externally.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	Admin: £4.525m Costs will be spread over three years. The intention is to keep the costs of managing the SEIF externally to similar levels to managing it internally.
£		
Average Annual Cost (excluding one-off)		
£ 32,725,000		**Total Cost** (PV) £ 98,175,000

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	Please see Evidence Base (Annex part B – 'Benefits of the SEIF')
£		
Average Annual Benefit (excluding one-off)		
£		**Total Benefit** (PV) £

Other **key non-monetised benefits** by 'main affected groups' Benefits are to the public and service users through innovation and adaptability, choice and quality of service providers, and the ability to provide responsive services to hard-to-reach disadvantaged sectors.

Key Assumptions/Sensitivities/Risks Assumptions include: types of organisations and their needs; 08/09 will be a key year; model data is appropriate for this policy. One risk is inappropriate use of the SEIF.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			England	
On what date will the policy be implemented?			ASAP	
Which organisation(s) will enforce the policy?			N/A	
What is the total annual cost of enforcement for these organisations?			£ N/A	
Does enforcement comply with Hampton principles?			N/A	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Decrease of £ **Net Impact** £ 4,525,000

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sh

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

SE was identified in the White Paper 'Our health, our care, our say' as a key means for delivering alternative health and social care. It is clear from this statement that to extend the current scope of SE funding, both social and health care should be included in any definition of which types of enterprise should receive funding. The initial stage in developing the role of SEs in care was the pathfinder programme. This identified 26 SEs representing a range in terms of geography, magnitude, and service. During the year 06/07 they were provided funding and non monetary support. Lessons learnt from this pilot have informed the discussion of how the Department of Health (DH) can move forward in terms of supporting new and existing SEs in the future. The SEIF was established as of April 2007. <u>The legislative proposals regard the distribution and management of these funds, not the establishment of the SEIF per se</u>.

1. The SEIF Fund

1.1 The SEIF

The SEIF was established in April 2007, part of the White Paper 'Our health, our care, our say' commitment to delivering alternative health and social care. The objectives of the SEIF are to:

- Stimulate and encourage the development of a vibrant SE sector delivering health and social care services;
- Address the current gap in information, advice and support for SEs in health and social care so that new, emergent SEs have the capacity to develop into viable organisations;
- Provide start up funding, sustained business support and longer term investment to emerging and existing SEs in this sector.

Below is the key information regarding the SEIF. For additional information, regarding Costs, Benefits and Specific Impacts of supporting SEs, please see the Annex.

1.2 Types of Organisations which could be supported by the SEIF

All the SEs supported by the SEIF would be expected to have <u>"not-for-profit" status</u> in that surpluses will be reinvested in the pursuit of their social aims. The key types of organisations have been identified as:

- *Multi-agency partnerships*, particularly voluntary and community groups wishing to use their expertise to provide services across health and social care;
- *Existing SEs* looking to expand into health and social care*;*
- *Groups of professionals* (such as nurses and therapists) seeking to form a SE to deliver their services.

1.3 Proposed timetable of the SEIF

A three-stage process was proposed for the SEIF:

Phase 1 – April to early Summer 07 - assessment of the 07/08 funding requests from the 26 pathfinders and allocation of funding to them, subject to State Aid considerations on each case. This funding process is being managed by the DH Social Enterprise Unit in-house team.

Phase 2 – Summer 07 to late 07/March 08 - the SEIF was opened on 17th August for further applications from developing SEs, there will be an assessment and due diligence process, and investment decisions will be made. This is being managed by an in-house team led by a DH owned company, Partnerships for Health (PfH).

Phase 3 – Autumn 07 to April 08 - tender process for a consortium to develop SEIF from 08/09.

1.4 Current Management

PfH currently manages the Fund. The role of PfH is to:

- Develop and publish a clear application process together with grant making and investment criteria for the SEIF;
- Design a range of finance products to offer SEs in health and social care;
- Develop and implement due diligence and diagnostic processes; backed up with business support and a rescue strategy;
- Set up strong governance arrangements (e.g. an Investment Committee);
- Work with the social investment field and other potential "no strings" investors to develop the SEIF.

1.5 Future of the SEIF

For the year 07/08 the SEIF has given first consideration to the funding needs of the 26 SE pathfinders, however for the years after will consider all applications equally.

The principles of the SEIF include the concept of developing a sustainable SEIF (now open), possibly managed by an independent SE itself, providing loans and equity investments as well as grants.

This proposal suggests that the management of the SEIF would be done most effectively through an independent body within an agreed framework, together with a clear application process and investment criteria and strong governance arrangements.

1.6 Proposals for the Bill

The need for legislative change was identified in part through the problems that arose during the pathfinder process. Initially, little was known about the types of organisations that would emerge, and given the time constraints for funding SE pathfinders, the approach of the Social Enterprise Unit and our internal legal advisers (SOL) was to identify the vires available within the existing legislative framework. The limited scope means that the existing legislation sufficed for the time. However, discussion with SOL highlighted potential problems for the development of the SEIF. These necessitate legislative changes; **we propose the following new powers to allow**:

a. The Secretary of State (SofS) to provide grants, loans, equity investment or a combination of finance products to SEs involved in the delivery of health and social care services;

b. SofS to provide funding to an independent fund management body for the purpose of that body managing the SEIF, when required;

c. Delegation of the power to make financial provision to SEs via NHS bodies. This would allow PCTs, NHS Trusts and SHAs to invest in SEs (with appropriate financial controls).

These powers will apply to SEs in England only. In addition, the clauses will not refer to "social enterprises" but will set out the types of organisation that the SofS can fund (although not specific legal forms). The organisations will have to undertake activities that benefit the community and have restrictions on the distributions of their profits. We are still considering the best way to ensure that the powers taken in the Bill are neither too narrow nor too wide.

Proposal C – the powers to delegate to PCTs, NHS Trusts and SHAs includes the power for SofS to give directions to any of these bodies. This means that financial directions can be set by DH, e.g. this might mean a requirement to submit a business case to the DH Director of Finance for approval.

2. External Management

2.1 External management of the SEIF

The SEIF is currently being managed in-house by PfH. The setting up of an independent fund management body has been identified as being of benefit for the future development of the SEIF. One of its key benefits is that as an independent body, for example drawing on a consortium of expert social investors, it can be more responsive and flexible to the needs of SEs.

2.2 Legislative barriers

Under the NHS Act 2006, the SofS does not have an express power to set up and provide funding to a body for the purpose of that body funding SEs. SOL have looked at the other powers of the SofS but consider that there would be a high risk of successful challenge, if we relied on these powers to set up and fund a SEIF management body.

As a result, we propose that the SofS provides funding to an independent fund management body for the purpose of that body managing the SEIF, when required.

2.3 Cost/benefit Analysis

An options appraisal was carried out by Halcrow Group Limited in November 2006. This advised that in-house management might be preferable; the key reasons for this being likely public bias and reduced legal complications. However, in-house management would also incur costs in terms of providing in-house managers with appropriate financial training.

Thus it is likely that the cost of managing the SEIF both in and out-of-house will be similar. Current and proposed management costs are detailed in Annex A. Given the relative youth of this sector, engaging an external fund manager was deemed to be more appropriate to draw on a range of expertise and experience in investment. This is likely to be a company with a not-for-profit legal form (i.e. likely to be a SE itself).

Benefits of external management include:

- Responsiveness to differing needs and development of new forms of finance, tailored business support and cross-referral mechanisms which draw on independent social investors and expertise;
- Evolution - planning for a fund which matures and evolves with the developing SE sector in health and social care, and emerging social investment field.

3. Social Care Providers Accessing Finance

3.1 Social Care Providers Accessing Finance

The White Paper commitment to supporting SEs is to both health and social care providers. Currently, investment in companies by the DH is limited to health care, thus this problem needs to be addressed.

3.2 Legislative Barriers

Section 223 of the NHS Act 2006 allows SofS to invest in companies in some circumstances but it is restricted to businesses engaged in delivering health services and does not cover *social care*. We need to rectify this position in the new power.

Thus, we propose that the SofS provides grants, loans, equity investment or a combination of finance products to SEs involved in the delivery of health and social care services.

3.3 Cost/benefit analysis

There will be no extra-incurred costs. Health and Social Care providers will be competing equally for this source of funding – relatively this will be a cost to providers of Health Care, but a benefit to Social Care providers. However, this is a new Fund, that has not been previously accessed, thus they are not incurring any 'real' cost or benefit.

Allowing investment in health and social care providers will further support the commitment to SEs.

4. New Forms of Finance Provision

4.1 Scope of the SEIF

The scope of the SEIF is expected to cover:

- *Revenue grants* for start up costs such as business consultancy, development of service models, business models, legal and financial advice, skills development and training;
- *Capital grants* for start up and early development such as premises improvement, purchasing premises or equipment;
- *Loans and seed corn equity investment* for a wide range of business needs but awarded following a due diligence process and risk assessment;
- *New forms of finance* – finance providers in the social investment field are developing new products to overcome the barriers for SEs accessing finance, e.g. combining some of the characteristics of loans with those of equity finance. As the SEIF develops, the intention is to offer some of these products to SEs in health and social care.

4.2 Problems in accessing finance

The need for change in the way SEs access finance has been highlighted by the Office of the Third Sector in the Cabinet Office report, 'Social Enterprise Plan: Scaling New Heights', November 2006.

It is also worth noting that:

- Grants still remain the main source of financing;
- The majority of external financing is from loans;

- Loans are mainly secured;
- Unsecured loans had been accessed by only 9% of SEs;
- Where unsecured loans are accessed, they come with high interest rates;
- Only some loans offer repayment holidays;
- Only a small proportion of SEs had accessed equity financing (7%).

(Sources: Bank of England, 'The Financing of Social Enterprises', May 2003'; Whitni Thomas, 'A fair trade finance initiative', 2003; Department of Trade and Industry (DTI) 'Lending to the social enterprise sector', May 2004.)

The Cabinet Office's report also highlights the need for a blended financial and social return, as well as the need for co-investment from the public sector to act as an incentive to help SEs access finance. The establishment of the SEIF reflects this vision, and we need to offer more innovative forms of finance in order to develop it further.

4.3 Legislative barriers

Grants - Section 64 of the Health Services and Public Health Act 1968, Section 228 of the NHS Act 2006 and Section 31 of the Local Government Act 2003, were used to award grants in 06/07 to the SE pathfinders. However, *Section 64* is restricted to grants (not loans) and also precludes grants to SEs that are public or local authorities. SOL's view is that if an organisation, although technically separate, is formed and controlled only by various public and/or local authorities, it should be regarded as a *public authority*. So far, our 26 selected SE pathfinders are either from the third sector or are partnerships which are not solely public authorities. However, this could pose a problem for future applications to the SEIF.

Loans, equity and new forms of finance - Section 223 of the NHS Act 2006 allows SofS to invest in companies in some circumstances but it is restricted to businesses engaged in delivering health services and does not cover *social care*. We need to rectify this position in the new power.

The maturing SEIF will also need to include new forms of finance products that are emerging to address the barriers faced by SEs, e.g. products that combine loan-like and equity-like features.

4.4 Moving forward

If we are to take an effective approach to encouraging the development of SEs, we need to ensure the legislative framework has kept pace with this new policy. So far, the SEIF has only provided revenue and capital grants to cover start up costs for our 26 pathfinders. Phase 2 and Phase 3 will develop the SEIF to cover the full-intended scope, which means offering a full range of appropriate financial products. Current legislation is not flexible enough to allow the SEIF to do this.

We want to draw on emerging new forms of finance for SEs. For example, the Bridges Community Ventures Fund has undertaken an exploratory study to investigate whether there is a need for a new kind of 'equity-like capital' to support the growth of social ventures. This includes exploring whether there is an investment model that could create more substantial and sustainable flows of investment into social ventures and complement existing sources of funding, like donations and loans.

DH is in the vanguard of government departments taking forward innovative solutions for SE development, in response to cross-government policy. This legislative change will enable us to continue this development.

5 Key assumptions

Costing from the year 08/09 relies on a number of assumptions:

- ***<u>Assumption 1 – Types of organisations</u>*** **-** We have assumed that emerging SEs in health and social care will broadly fall into the following types:

Groups of professionals (such as nurses and therapists) with little or no business experience, seeking to form a SE to deliver their services;

Multi-agency partnerships, particularly voluntary and community groups wishing to use their expertise to provide services across health and social care;

Existing SEs looking to expand into health and social care.

- ***<u>Assumption 2 – differing needs</u>*** **-** On the basis of stakeholder feedback, examples of new and existing SEs, data on investments from other funds (e.g. Futurebuilders), we have assumed that:

Types 1&2 are likely to be relatively inexperienced and will need higher start up revenue grants (for legal advice and business support);

They are also likely to need skills training;

Type 3 is more likely to have the capacity to take on loans and other investment but will not need the same level of development support through revenue grants;

Organisations applying for their second year of funding are likely to require less development support but may be ready for higher capital grants and investment.

- ***<u>Assumption 3 – 08/09 will be a key year</u>*** - We expect 08/09 to the key year for the SEIF (first full year) and that the demand for funding will increase.

- ***<u>Assumption 4 – Futurebuilders data and indicative numbers/funding levels</u>***

We have derived average figures for revenue grants, capital grants and loans from data supplied, in particular, from Futurebuilders.

The number of organisations used in our calculations also tallies with numbers of applications received by Futurebuilders. We have also assumed that, on average, there could be at least one SE per PCT in 08/09, an additional one in 09/10 and another in 10/11 (i.e. reaching a total of three by 10/11).

- ***<u>Assumption 5 – Experience of other funds on the grants/loans ratio</u>***

Looking at the experience of other funds (e.g. UnLtd, Social Enterprise Link), we have not used Futurebuilders' model of 80% capital and 20% revenue. We have assumed a greater need for revenue, particularly in the initial development stages.

6 Risks

6.1 Political and administrative risks

- Suspicion from unions and possibly parts of the third sector that this is another move to privatisation through the back door. This can be robustly countered by the social objectives of SEs;

- That money could be wasted by investment in a company when another could achieve the same benefits without the investment. The evaluation will look at this aspect;

- The financial benefit could be difficult to measure, through secondary and tertiary effects (e.g. social inclusion reducing crime). Again, an issue for the evaluation;

- *Independent Fund Management* – This may bring political/commercial sensitivities. External fund management may be less effective than in-house in terms of overall costs. However, an external manager could have broader knowledge and understanding of social investment. Currently, the initial SEIF investment process is being run by a DH owned company, bringing both value for money and investment expertise. The final decisions will be made on the basis of reviewing the SEIF in 07/08 by DH and will be subject to Ministerial approval.

6.2 Investment Risks for the SEIF

Underdeveloped businesses

- SEs and particularly SEs in healthcare are part of an emerging market, so they are often putting into place untried models.

- There is also likely to be a relatively higher risk of default due to lack of management skills, business skills, and financial skills in the SE sector.

- However, over the next four years, as the needs of the sector emerge, the SEIF will be developing appropriate **business support** to address these deficits, **educating** SEs to be **investment-ready** and **viable**.

Poor rate of return

- Another concern is that, while the experience of many social investment funds shows 50 – 70% recycling rate, the SEIF may not achieve this level early on and may carry a risk of non-return on investments and of capital.

- However, one of the SEIF's aims will be to achieve a reasonable **recycling** rate **as it matures** over the next 3 years, as well as attract "no strings" **investment** where possible.

- It is also reasonable to take the view that some loss might be sustainable in the process of "**enabling**" SEs.

Draw down

- As with the experience of Futurebuilders England, there is a risk of low draw down on loans/investments.

- However, one way of addressing this would be to put an **end date** on the offer (although this would need careful handling, as issues beyond SEs' control can prolong the process).

Liabilities

- Unlike other sectors, there are particular liabilities associated with healthcare.

- However, the SEIF's due diligence process would seek to establish whether there were such issues with a particular SE and whether they have taken steps to meet existing clinical standards.

7 Evaluation Process

7.1 Pathfinder evaluation

An evaluation of the pathfinders will be carried out by Newchurch as of August 2007. This is a two-year process testing two hypotheses:

- That SE will be able to demonstrate the general benefits claimed for the third sector;
- That SE will be able to play a much greater role in the provision of services for the NHS in the near future.

The following levels will be considered: programme; local health economy; individual SE. Once this is complete, the findings will shape the structure of the evaluation of the SEIF. The review of the pathfinders is expected to highlight the three problems we are now seeking to address. Please see Annex P for a copy of the Evaluation Brief. The terms of the evaluation are being developed and a detailed project plan will be available in due course.

7.2 Evaluating the Policy

The evaluation of the effectiveness of the SEIF will take place over the next two years. The methodology for the evaluation of the SEIF has not yet been determined, and will take on board the findings and structure of the Newchurch evaluation of the pathfinders.

The intention is that researchers will work with the SEIF Programme Manager to identify data collection needs as applications are assessed in late 2007. A data analyst will be part of the SEIF team.

Any review of the SEIF after the changes in the legislation will be asked to include an assessment of the impact of the three changes. The current pathfinder evaluation is looking at commissioning behaviours and the social returns brought by the pathfinder SEs. The intention is that the SEIF evaluation should include a quantified assessment of whether the social returns justify the Government's investment in the enterprises, relative to the alternative strategies for securing the relevant services (commissioning by open tender, allowing the Independent Sector, 3rd Sector and NHS providers to compete on a level field, direct NHS provision).

The current SEIF has funding for four years as of April 2007. However it is designed to have evergreen aspects, and we hope that this will enable it to continue in future.

If the evaluation of the SEIF shows that it is not meeting its objectives, we will either change the way in which it operates to make it more effective or discontinue it. At this stage, there is no public commitment to continue the SEIF beyond 2011.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in***	***Results***
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	No	Yes
Other Environment	No	Yes
Health Impact Assessment	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

List of Annexes

Annexes

The SEIF was a White Paper commitment. It has been established, and opened (as of 17/08/07), and is currently being managed in-house by PfH. The information contained in the annexes gives an overview of the issues and analyses surrounding the SEIF. This is to enable an understanding of the proposals for legislation in a wider context.

Annex A: Costs of the SEIF

The key affected groups are:

- SEs - new, developing and currently existing SEs will experience increased competition and competition for funding and commissioning, although this could be viewed as part of an ongoing process to drive up quality;

- Current care providers – PCTs, NHS Trusts, Private Sector Care providers may experience increased competition for both contracts and access to finance, although this competition is hoped to drive up quality;

- Policy and administrative cost - the cost of meeting objectives is outlined below.

SEIF management costs

We have looked at a range of approaches to costing fund management. This includes the higher end at 10% of the total SEIF, as well as low costs such as 2% pure management costs.

We also looked at costs based on the salaries of two investment managers (per 80 applications) and a head of fund, plus other administration costs. Our cost assumptions use the median of 5% of the total SEIF = **£4.525m** (5% of £90.5m).

Communications

We have costed communications at an average of £250k per annum. The cumulative total for the 3 years = **£750k**.

Evaluation

We have costed this on the basis of a team of researchers (e.g. two senior researchers and two assistants) plus administration costs. We estimate the average per annum as £300k. The cumulative total for the 3 years = **£900k**.

Skills training

As with the original 07/08 bid, we have costed skills training at £5k per organisation types 1 and 2 (as they are likely to be the most inexperienced). The £5k is based on the average costs of SE training courses. We expect to negotiate a free package of training in 06/07 but there is no guarantee of this in future years and with a wider programme. Total costs over the 3 years = **£1.5m**.

Table: Total SEIF requirements.

REQUIREMENT		08/09	09/10	10/11	CUMULATIVE
Revenue Grants		£ 7.000m	£10.250m	£10.250m	£27.500m
Fund management		£ 0.900m	£ 1.8125m	£ 1.8125m	£ 4.525m
Comms		£ 0.250m	£ 0.250m	£ 0.250m	£ 0.750m
Evaluation		£ 0.300m	£ 0.300m	£ 0.300m	£ 0.900m
Skills training		£ 0.500m	£ 0.500m	£ 0.500m	£ 1.500m
	Total revenue	£ 8.950m	£13.1125m	£13.1125m	£35.175m
	+ Capital	£11.000m	£26.000m	£26.000m	£63.000m
TOTAL		**£19.950m**	**£39.1125m**	**£39.1125m**	**£98.175m**

Annex B: Benefits of the SEIF

It is hoped that the SEIF will benefit:

- SEs – by stimulating new SEs and encouraging the development of existing SEs. Access to a central fund can address the gap in current financial provision for SEs.

- Current care providers – PCTs, NHS Trusts, SHAs – as they will be able to commission new health and social care providers and direct resources towards local needs. Public money spent commissioning SE contractors often achieves social benefits beyond the service directly procured.

- Service Users, their families and carers – they will have choice and access to specific care providers and services that are responsive to their needs. It may help reduce the burden of care.

- Wider community

- The fundamental business principles of SEs are reinvesting in services and the community.

- Regeneration and social inclusion can positively affect mental health and general well-being.

- The potential for environmental impact is summarised in Annexes G and H.

Qualitative data, and some quantitative data, regarding SEs have been recorded for specific organisations, for example, Sandwell Community Caring Trust (see Annex O). Currently there is very little available quantitative data regarding SEs across the board. The recently completed Cabinet Office commissioned study by Hull University 'Assessing the Economic and Social Impacts of Social Enterprise', June 2007, highlighted the difficulties in assessing this information. The report recommends a series of detailed impact studies of different SE sectors at the local and subregional levels, and a separate study on how it might be possible to analyse the 'value added' by SEs. The Cabinet Office is considering these recommendations as part of the next phase of research into SE.

The 'Triple Bottom Line' of SEs are expected to provide social, environmental and financial returns. The not-for-profit status of these organsiations ensures that financial surplus in reinvested into services or the wider community. The New Economics Foundation have devised a new measure for these impacts, Social Return on Investment (SROI), which aims to show how social and environmental outcomes translate into tangible monetary value. Investment of time, money and other resources can also be understood in terms of the 'return' or value created for individuals, communities, society of the environment. Should this framework be utilsed by SEs, we may soon see some data about the impacts of specific organisations. This can inform our understanding of the wider blended financial and social benefits of SEs.

Annex C: Competition Assessment

Although it is not the intention of the proposal, there may be some limits imposed on the number or range of suppliers. The exclusive rights to supply will not be granted. However, in facilitating groups of professionals, it is possible they will become the only provider in the market – it must be noted that this is often because they are the only suppliers.

The proposal does not significantly raise the costs for any competitors in the market. However, it may give advantage through reducing the costs of entering or exiting an affected market for individual organisations. The proposal makes no distinction between new and existing organisations. However, through the funds exclusive support for SEs, the for-profit sector may be compromised, although this could be justified if the expected social returns from SEs emerge. Due regard will be given to State Aid rules.

The proposal does not impose a limit to the ability of, or incentives to, suppliers to compete. In contrast, the aim is to increase competition to drive up quality of service provision. It must also be considered that SEs are likely to participate in providing services to sectors that for-profits have not found attractive, e.g. recycling materials, providing social care in deprived areas. Changes in market structure are likely therefore to be brought about through the development of new enterprises in an underdeveloped sector of the market.

Annex D: Small Firms Impact Test

In November 2006, The Office of the Third Sector in the Cabinet Office published a report ‘Social Enterprise Plan: Scaling New Heights’, which highlights that the ‘right’ amount of finance is not always provided by the market, despite the viability of the proposal; this might stem from information asymmetries between the borrower and the lender.

In 2002, the DTI commissioned the Bank of England to investigate the issues affecting SEs in accessing finance. Building on the report in 2003, the DTI’s Small Business Service conducted a major survey of the experiences of SEs in accessing finance. The key early findings from the DTI survey, ‘Finance for Small and Medium-Sized Enterprises: Comparisons of Social Enterprises and Mainstream Businesses’, June 2007, are:

- Established SEs (particularly small ones) were more likely to feel discouraged from applying for finance than Small to Medium Sized Enterprises (SME)s, which implies that they believe they will be rejected;

- While the supply of debt finance, particularly secured debt finance, appears to be increasing, SEs still report difficulties in accessing more high-risk investment. This lack of equity is often perceived to be a barrier to high-growth SEs, and the Bank of England report identified a need for some form of ‘patient’ capital;

- Larger SEs received significantly less finance than similar-sized SMEs in absolute terms.

The Bank of England summarised the reasons for the lack of equity in SEs as:

- The difficulty of providing a commercial financial return, as SEs tend to want to reinvest most of their profits into their social mission;

- Ownership issues, which mean that SEs are often unwilling to cede control to outside investors, for fear of mission-drift, and indeed may be unable to do so, because of their legal structure;
- The lack of a secondary market for investments in SEs;
- The costs of applying the process of due diligence to relatively small investment decisions.

The Government has worked with the market to establish a range of interventions, including Early Growth Funds and Enterprise Capital Funds. However, it is unlikely that many SEs will benefit from these interventions, because of the level of return required and because many SEs do not issue shares that funds can buy. The current proposal has been developed by the Office of the Third Sector in consultation with the SE and finance sectors, to assess demand, and to determine the most appropriate model.

Annex E: Legal Aid

It is not likely that there will be a potential impact on the workload of the courts or a legal aid cost.

Annex F: Sustainable Development

SEs often operate with a 'Triple bottom line' whereby social, environmental and financial benefits are valued equally. Thus, the elements of sustainable development - living within environmental limits, ensuring a strong, healthy and just society, and achieving a sustainable economy - are met on a micro-scale. Service-user led SEs ensure good governance. Where relevant, services would be expected to be provided within the realms of sound science, but also incorporating more atypical ideas as would be expected in an innovative environment.

Annexes G & H: G Carbon Assessment/H Other Environment

Overall, the impact of the policy on the environment will be positive it at all significant. The Table below shows the potential environmental impacts of SEs.

Table: Potential environmental impacts of SEs.

Environmental Factor	Effect
Greenhouse gases	SEs focusing on alternative power may contribute to a reduction in greenhouse gases; e.g. the Baywind Energy Co-op, which produces electricity through windfarms, and dispenses advice and educational material to the local community.
Vulnerable to climate	N/A
Waste management	A number of SEs have realised that recycling can have social and environmental benefits, from household to construction waste. Investment in this area can have a substantial positive impact on waste management e.g. Brighton and Hove Wood Recycling, Bulky Bobs, Green-Works and the ECT Group.

Air Quality	While SEs may not improve air quality directly, extension of public transport routes may reduce use of private vehicles, and thus improve air quality e.g. Hackney Community Transport.
Noise Pollution	It is unlikely that the policy will affect the number of people exposed to noise or the levels of exposure.

Facilitating funding of new and existing SEs may encourage the development of companies with social and environmental aims, such as those who involve excluded members of society in recycling and regeneration, or those who aim to inform and enable sustainable technologies, such as the Centre for Alternative Technology. In sum, there may potentially be a wide-ranging number of positive effects on the environment as a result of this proposal.

Annex I: Health Impact Assessment

One of the main aims of the policy is to have a positive direct impact on health by increasing competition and driving up the quality of health and social care. Service User led services can adjust to the real needs of particular populations. There are also likely to be a number of indirect benefits to health generated by holistic attitudes of SEs towards health and social care and the physical, social and economic environment. These include addressing: social exclusion; low educational attainment; transport; and poor housing among many others.

There may be a disproportionate impact on particular groups; it is expected that there will be a higher number of applications from disadvantaged communities. Thus the policy may help close the inequality gap.

In assessing the Health Impact of SEs, we have considered: the pathfinders; the Social Enterprise Coalition; finance providers; service uers; commissioners; service providers. It must be considered that SEs are not the ideal providers of health care services in every situation. However in more unconvential situations SEs can be the only source of outreach services.The pathfinders in particular are useful in assessing the real impact and problems of SEs in this sector, and the Newchurch Evaluation, to be completed in August 2009, will provide the first in depth evalution of this.

A. Are the potential positive and/or negative health and well-being impacts likely to affect specific sub groups disproportionately compared with the whole population?

It is not expected that there would be any negative health and well-being impacts; as SEs add services to the market, or add value to existing services. Although there may be some secondary benefits to the whole population, such as improved quality of services through competition, and environmental and social changes on a local scale, it is expected that the benefits are quite often likely to be focussed on specific disadvantaged subgroups.These include, but are not limited to, the elderly, ethnic minorities, the vulnerable and socially excluded.

The policy is unlikely to increase exposure to risk factors which cause poor health. On the contrary, it may serve to increase community and service safety, improve the environment, increase access to transport, services and facilites, offer opportunities for education and training, increase knowledge of, and access to healthy food, and inform and influence lifestyle factors such as smoking, alcohol, dietary habits and exercise levels. The underlying basis of many SEs, especially in social care, is to increase community cohesion and social inclusion. Furthermore, SEs address any discrimination and promote equaity on access to services, on the basis of age, gender, ethnic origin, disability, sexual orientation, religion or belief.

It is also possible to consider the benefits from the point of view of different members of society. Residents of an area may perceive an improvement in services or the safety to an area. This may encourage visitors, and businesses to invest. Employees of SEs benefit financially and personally from their role within the company, thus the company itself can expect a more committed workforce. In the region of health and social care, SEs are often set up to address a perceived gap in the services avialable – either services are not reaching the whole population, or the specific needs of iindividuals or communities in the population are not being met. This may be based on age, gender, ethnic group, religion, financial status, or specific medical needs due to disability, mental health or chronic illness. Data on how many of these people, amongst others, may benefit has not been calculated at this stage. Currently there are over 55,000 SEs in the UK, with approximately 1/3 of these thought to be health and social care providers. The scope of these can range from a relatively small user group, e.g. SCA Healthcare (12,600) to a much larger, e.g. Surrey Communitiy Provider Services (1.1 million).

Overall, it is to be expected that SEs will help to bridge the gap between disadvantaged people and those who experience good health and well-being.

B. Are the potential positive and/or negative health and well-being effects likely to cause changes in contacts with health and/or care services, quality of life, disability or death rates?

It is hoped that SEs will stimulate changes in health care services and quality of life through increased quality of care providers and the availability of specific, relevant services which can adapt to the specific needs of the service user population. This may take the form of primary care, community nursing and therapy services. Health education and awareness aimed at high risk populations may contribute to a decline in occurrence of disease, e.g. 'Apnee Sehat' aims to reduce the occurrence of diabetes and cardiovascular disease in the high risk Asian community. Programmes of this nature not only improve the well-being and quality of life of the individuals involved, but may contribute to a reduced immediate need for medicines.

The social impacts of SEs are hoped to improve the mental health and wellbeing of not only the individuals who use the services, but also that of their immediate circle of contact and the wider community.

It is unlikely that essential services such as emergency preparedness, hospital care and accident and emergency centres will see a significant, if any decline, in usage.

C. *Are there likely to be public or community concerns about potential health impacts of this policy change*?

There may be some community concern about the funding and regulation of SEs providing health and social care. However, this may be countered by the opportunity to be involved in the direction of Health and Social Care Services.

- *What is the evidence that SEs drive up quality and responsiveness?*

There are many examples of SEs improving quality, while delivering a broader social dividend. We would like to test these emerging models in pathfinder sites. One example of an established SE that has driven up the quality of care is Sandwell Community Care Trust. Quality has improved through a number measures, including reduced administration costs and improved staff retention. We will be evaluating SE pathfinders to test out whether they are driving up quality and responsiveness, and to find out what sort of support is most effective in helping SEs to grow.

- *Isn't this just another way of bringing in privatisation through the back door?*

No, absolutely not. SEs share the same public sector ethos as the NHS; they re-invest surpluses into services and the community. They are run on business principles, in order to improve quality and efficiency.

- *Is this another cost-cutting exercise at the expense of services and patients?*

Certainly not. The objective is to drive up the quality and responsiveness of services.

- *What about clinical audit and regulation? What arrangements will be in place?*

As outlined in the recent White Paper, we are looking at the use of national accreditation schemes in boosting quality. We will be introducing a national licensing scheme for healthcare providers, the exact details of which are currently being considered.

Equality (General)

There will be monitoring of the policy to ensure there is no adverse impact on different groups. As part of the SEIF's investment process, there will be an assessment of investees to ensure that equality requirements are taken into account by these organisations. We also expect that when these organisations win contracts with public sector commissioners, the contracting process will ensure compliance with equality requirements.

In addition to addressing equality issues around ethnic origin, disability and gender as described below, many SEs address health inequalities and disadvantage which may arise from age, sexual orientation and religion or belief.

Annex J: Race Equality

Many SEs focus on providing services to marginalised people and areas; these areas tend to have higher black and minority ethnic (BME) populations. Thus, the indirect result of the policy can be seen to be positive, targeting race equality in access to health and social care, or focussing on the needs of these particular populations. One example of this is the Pathfinder 'Apnee Sehat', a community programme based in Leamington Spa, for the prevention and management of diabetes and cardiovascular disease in the high risk Sikh population. Award letters draw attention to the need to comply with the Race Relations Act 1976.

Annex K: Disability Equality

This policy may have a substantial positive impact on some disabled people through extending the range of health and social care providers they may access, driving up quality through increasing choice, or improving accessibility and quality of life. An example is the Pathfinder 'Lifestyle Solutions' in Thurrock, providing social and emotional support, the provision of personal assistants, respite for carers and support towards independent living. Award letters draw attention to the need to comply with the Disability Discrimination Act 2005.

Annex L: Gender Equality

There is a potential for the SEIF to support groups which promote gender equality, such as protective shelters and mental healthcare for victims of domestic abuse or outreach programmes for sex workers who may otherwise be reluctant to use available healthcare services..Award letters draw attention to the need to comply with the Sex Discrimination Act 1975.

Annex M: Human Rights

Support through the SEIF will not be given to any SEs which aim to directly or indirectly contravene the articles of the Human Rights Act. Positive enforcement of the articles could be shown through targeting of disadvantaged groups [prohibition of discrimination] and SEs addressing any democratic deficit, particularly in local communities.

Previous grant conditions have drawn attention to the need to comply with the Employment Equality (Sexual Orientation) Regulation 2003, Employment Equality (Religion and Belief) Regulation 2003, Employment Equality (Age) Regulation 2006, Equality Act (2006), the Data Protection Act 1998 and the Human Rights Act 1998.

Annex N: Rural Proofing

Support of SEs with a rural focus can positively affect rural areas which may have sparsely situated healthcare resources, e.g. 'Alston Healthcare' provides mobile community health services with a particular focus on older people in Cumbria.

Annex O: Case Study – Sandwell Community Caring Trust

Sandwell Community Caring Trust provides care and supported living to children, adults and older people with disabilities.

Created in 1997 when £1.2m of care services were transferred from the Council, the Trust has achieved impressive savings. For example, an elderly care home run by the Council at a cost of £452 per person per week, and transferred to Sandwell Community Caring Trust in 1997, now costs just £328 per person per week.

The Trust's achievements have been made without sacrificing quality or staff pay and conditions. Sandwell Community Caring Trust came second in the 2006 Sunday Times 100 best companies to work for. Staff absenteeism has reduced from 22 days per person in 1997 to 0.6 days per person in 2006.

Service users and their families have witnessed an improvement in the quality of accommodation offered and in the quality of care provided

Annex P: Evaluation Brief

SOCIAL ENTERPRISE PATHFINDER PROGRAMME
EVALUATION BRIEF

<u>Introduction</u>

1. Social enterprises are organisations operating a business model with a social purpose. In the White Paper *Our health, our care, our say* (paras 7.93-7.102), the Government outlined plans for stimulating expansion of the role of social enterprise in the provision of health and social care in. The Department of Health subsequently established the Social Enterprise Unit and invited applications to join a pathfinder programme to develop social enterprise models for delivery of health and social care. On 25th January 2003, Health Minister Ivan Lewis announced the 26 successful projects that will have access to a £1m fund to support the development of the programme. The Department is now inviting full research proposals to evaluate the social enterprise pathfinder programme over a 2-year period (with regular interim reporting) in order to provide a robust evidence base and actionable lessons for social enterprise in health and social care.

Social enterprise

2. Further information about DH social enterprise policy is at: http://www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/Commissioning/SocialEnterprise/fs/en.

Issues for evaluation

3. Proposals are invited for a 2-year research project to evaluate the social enterprise pathfinder programme. The details of paticipants in the programme are attached at Annex A. The development and operation of social enterprise models in health and social care presents a wide range of issues for evaluation. The following set of issues provides some guidance for the focus of the evaluation. However, this is not intended to be a definitive list and applicants should identify the issues that in their judgement are most critical for an evaluation that will be of value for policy and service development.

4. Issues addressed in this evaluation might include:

- How practical aspects of *set-up and operation* of social enterprises are tackled; what the enabling and constraining factors are and what kind of support is needed for organisational development;

- Management, governance and *organisational effectiveness* within social enterprises, including staff satisfaction;

- The *range of services* provided by social enterprise models – e.g. how comprehensive or specialised;

- Factors influencing commissioners' decisions about letting *contracts* with social enterprises and the capability of social enterprises to compete for contracts;

- The *quality of services* provided – for example, responsiveness and outcomes for service users and users' assessment of service delivery (compared to alternative arrangements);

- Factors influencing the *sustainability* of social enterprise models;

- The extent to which social enterprise models increase *choice and voice* for service users and improve *accessibility* to services;

- Impact of social enterprises on *other local providers*;

- The relative strengths and *value for money* of different models of social enterprise;

- Wider *benefits to the community* of social enterprise models.

Evaluation requirements

5. A key feature of this evaluation is that it should have a *formative* role – that is, provide evidence-based lessons that can be applied during the course of the pathfinder programme. The evaluation plan must include arrangements for timely feedback of emerging findings to those stakeholders who may be able to act on them. An initial report is required 6 months after commencement of the evaluation, covering practical lessons from the early progress of the pilots, to be followed by further interim reports on emerging findings before the final report at the end of the evaluation. A key aim of the evaluation is to enable learning from the pathfinder

programme to be shared across the health and social care sector. Provision for effective dissemination mechanisms should be integral to the evaluation plan.

6. This formative aim for the evaluation will be complemented by the *summative* aim of providing evidence-based conclusions about the benefits and costs of social enterprise models. We realise that definitive evidence regarding outcomes for individuals and local populations to whom social enterprises in the programme are providing services may not be fully available within the time frame of this evaluation. However, soundly-based evidence of impact observed by the end of the evaluation period and indications for potential future impact should be included. The final results of the evaluation will inform the further development of policy, commissioning and the role of social enterprise in the health and social care system.

7. The design of the evaluation is for bidders to propose. However, we expect that the evaluation framework will cover all the pathfinder projects. Optionally, detailed investigation of specific issues may be undertaken at sites sampled according to specific criteria relating to evaluation objectives. It is expected that the research design will include both qualitative and quantitative methods.

8. Evaluation proposals should give consideration to the potential for *comparative* assessment of the benefits of social enterprise relative to other (existing) health and social care delivery models.

9. Evaluation of the pathfinder programme should be designed with the aim of producing findings that can be generalised beyond the specific sites studied, so that wider (evidence-based) implications for the development of social enterprise models can be drawn out.

<u>Applications</u>

10. This is a single tender process and full proposals are required. Collaborative proposals involving multiple institutions are welcome. In assessing proposals, the Department will be looking for

- Strong awareness of the policy context and the body of relevant literature;
- A research plan including objectives, design and methods;
- A delivery timetable with clear milestones;
- Clear leadership and project management arrangements to ensure delivery to time and budget;
- Appropriate expertise and track record;
- Dissemination strategy
- Justified costings and value for money;

Annex A

List of successful pathfinders.

<u>Lorica Learning Disabilities</u>, is based in Pulborough, Sussex. It proposes setting up a Community Interest Company to provide services for people with learning difficulties and their families, including helping support young adults during the transition to independent living.

Surrey Community Provider Services will be providing community health services to a total population of 1.1 million people in Surrey, and will be exploring using an umbrella model to support a number of social enterprises providing community based services.

SCA Healthcare is an industrial and provident society. It is proposing providing a range of community services including a long term condition resource centre and support to carers and relatives from a community hospital in Southampton.

Milton Keynes Health and Social Care Services will provide health and social care services including older people's services, children's services, adults out of hospital services, and integrated mental health and learning difficulties services.

Community Docs for All is proposing a locally managed primary care medical service for the population of one ward in Weston-super-Mare, and aims to link primary care services with wider health improvement and regeneration initiatives.

Devon Healthy Living Community will be developing cluster multi-disciplinary primary care teams integrated with the voluntary sector, providing advice on early intervention services for patients.

The Bridge is a proposal to set up a social enterprise to deliver alcohol and substance misuse programmes in London. The service will include residential accommodation, therapy programmes, modular treatment centres, and a back to work programme.

Phoenix Care Agency based in London will provide health and social care services to vulnerable adults, including emotional well-being, art activities, horticultural therapies, training, support to employment, and carer's services.

Healthy Living Centre in Southend is proposing developing a healthy living centre with a hub for integrated children's services into a social enterprise. Services will include primary care, children's services, adult mental health, and health enhancing activities.

Lifestyle Solutions in Thurrock will be providing services for disabled people and people with learning difficulties, including social and emotional support, the provision of personal assistants, respite for carers and support towards independent living.

Leicester Homeless Primary Care Service is proposing providing primary medical services to vulnerable patients. Its primary health care centre will be co-located with a 42 bed night shelter and a YMCA drop in centre.

Based in Rushcliffe, Principia Partners in Health is a coalition of GP practices, community professionals, community pharmacy and local people. Principia will provide primary care, including extended hours access, and community services to a population of 118,000.

Willow Bank Community Interest Company based in Stoke on Trent will provide General Medical Services and one stop care, with a particular focus on vulnerable groups including lone-parent families, local homeless people and BME communities.

Coventry based Health Equality Lifestyle Plan proposes transforming a successful healthy living centre into a social enterprise.

The Open Door is proposing providing a wide range of primary care services for vulnerable people in the Grimsby area, in addition to support into employment, gardening and music therapies, exercise and cooking skills.

Hull based City Health Care Partnership Ltd will provide all primary and community health services across the city through a social enterprise.

Salford Health Matters will provide essential medical services and community based enhanced health services, to a population of 12,600. The organisation also aims to provide training and development that benefits the local community and to support social enterprise activity with a wider health benefit in the community.

Cumbrian based Alston Healthcare is proposing to provide community health services, including e-health services, across a rural area, with a particular focus on older people.

Delivering Connected Care in Hartlepool will provide integrated health and social care services, bringing these together with housing, education, employment, community safety and transport, in an area of high deprivation.

DCP is a third sector organisation that will set up a social enterprise in Newcastle to deliver services to people living with dementia, and their carers.

Based in Middlesbrough, the Developing Partners Project aims to develop and provide user led training for health workers, and user led research and evaluation of health services.

The Forest of Dean Health Enterprise Trust proposes providing community health and social services in a rural area, including the operation of existing community hospitals.

London based Service User Led Direct Payments is planning to set up a service user led social enterprise to support and manage direct payments and individualised budgets.

Maternal Link Birth Centres proposes providing antenatal, postnatal and community midwifery services at home or in birth centres in the Trafford area.

Secure HealthCare is bidding to provide prison and offender health care services in HMP Wandsworth, and will consider how to develop and implement innovative ways of delivering care to this complex population and how these services could be applied elsewhere.

List of Abbreviations

BME	Black and Minority Ethnic
DH	Department of Health
DTI	Department of Trade and Industry
PfH	Partnerships for Health
SE	Social Enterprise
SEIF	Social Enterprise Investment Fund
SME	Small to Medium Sized Enterprises
SofS	Secretary of State
SROI	Social Return on Investment

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