Harnessing Social Enterprise for Local Public Services: The case of new leisure trusts in the UK

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Abstract

The government's public service reform policy emphasises the collaboration of local authorities with a network of other agencies in the locality, either through contracts or through partnership arrangements. Strong encouragement is currently being given to the involvement of 'third sector' organizations (including social enterprises) in such partnering arrangements. This environment has opened up new opportunities for social enterprises. However, as the DTI has asserted in relation to social enterprise, 'rhetoric rather than a robust evidence base continues to inform many arguments for its growth and support' (DTI, 2003a: 49). This paper examines one of the most widespread examples of social enterprise in the provision of public services: 'new leisure trusts'. It asks whether the combination of entrepreneurial skills and social purpose in social enterprises such as new leisure trusts provides a useful model upon which public service partnerships could be based. Findings show that these social enterprises can work to create synergy through improved input/output ratios, commitment to meeting social objectives and wider stakeholder involvement. However, there are issues of incentivisation and relative autonomy that must be resolved within such partnerships, and more work to be done in some cases to build genuine social inclusion.

Keywords

Social enterprise; partnerships; public services; new leisure trusts

Introduction

The delivery of public services is no longer a straightforward matter in UK local authorities (Butcher, 2002; Peck & 6, 2006). The last three decades of public sector reform, often presented as the product of fiscal pressures, can equally be portrayed as a period of 'adaptive capacity reform' (Toonen & Raadschelders, 1997). This reform has seen significant reductions in the direct provision of public services by local authorities through divestment, the opening of services to private sector competition, and a rise in the level of 'agencification' (Clarke & Newman, 1997), whereby services are provided by agencies that are (at least) semi-autonomous from government (Pollitt et al, 2005). New Labour's pragmatic reform policy of 'what matters is what works' has further driven the collaboration of local authorities with a network of other agencies in the locality, either through contracts or partnership arrangements. Indeed, early in his premiership, the former Prime Minister stated outright that 'it is in partnership with others that local government's future lies' (Blair, 1998: 17).

'Partnering' arrangements have been implemented for the opportunities they bring for synergy or 'collaborative advantage' (Clarke & Stewart, 1997; Pierre, 1998; Huxham, 1995). More specifically, they have been claimed to help optimise service provision by leveraging additional resources (Peters, 1998), or creating scope for a greater alignment of objectives and agreement on action (Stewart, 1996; Huxham & Vangen, 1996; Foster & Plowden, 1996). In this way, it is asserted that partnering arrangements can help to secure beneficial 'culture changes' for service delivery, leading to improved services to the community and a greater focus on service users (ODPM/Strategic Partnering Taskforce, 2003).

One emerging strand of government policy is the strong encouragement being given to the involvement of 'third sector' organizations in such partnering arrangements. This has been supported by the newly-created Office of the Third Sector (OTS) within the Cabinet Office. The government's interest in involving the sector in public service provision is made clear in the local government White Paper, '*Strong and Prosperous Communities*':

> 'To deliver the ambitions in this White Paper, local government will need to work in partnership with the third sector. Their expertise and enterprise needs to be harnessed and developed to enable local authorities to fulfill their place-shaping role'
>
> (DCLG, 2006, Vol. 2: 55)

This emphasis on third sector involvement sets the context for this article. However, we focus here on an example from just one part of the third sector: social enterprise (SE). A social enterprise is 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners' (Treasury/Cabinet Office, 2006: 29). Increasingly over the last decade, the combination of entrepreneurial skills and social purpose in SEs has been recognized as a useful model upon which some of these new partnerships could be based (DTI, 2003b: 28). This recognition prompted the establishment of the Social Enterprise Unit at the DTI in 2001 (now incorporated within the OTS). In a recent OTS report, the former Prime Minister stated his support:

> "We know that, throughout the country, there are programmes being delivered by social enterprises that work brilliantly. It is groups like these at the front line of delivery who know about what works and what doesn't. Their creativity, their innovation, their energy, and their capacity to build trust are helping us to meet the tough challenges ahead and to drive improvements, to extend choice and to give a voice to the public"
>
> (Blair, 2006, foreword)

A clear momentum has therefore been generated, and a push to identify ways to provide public services in partnership with social enterprise is now taking place throughout government (e.g. Cabinet Office, 2002; OTS, 2006a; b; Treasury, 2002a; b; 2003; ODPM, 2003; 2004; DCLG, 2006; DoH, 2003; 2006; DfES, 2001; DTI, 2003b). Nevertheless, the term 'social enterprise' is used to cover a large range of organizations that have emerged from many diverse backgrounds, and which vary in their size and duration of existence. While these differences cannot be ignored, translating them into an easily useable typology for analysis is problematic (Hart & Haughton, 2007). In one useful approach, Paton (2003) distinguishes between member-led SEs operating at community level and funder-led SEs providing services

under contract. Lloyd (2002) makes similar distinctions between 'community enterprises' and 'social businesses', but perhaps gets closest to the type of SE we seek to address in his third category of 'mixed format' social enterprises, which combine elements of community enterprises (e.g. locally-based, oriented towards addressing community needs) and social businesses (e.g. managed for contract service delivery, surpluses for community benefit), but also retain a need for legitimation from authorities. These organizations encompass both existing, independently-created SEs (some of whom have successfully negotiated relationships with the public sector for service delivery; DTI, 2002; 2003a), and newly-created examples where local authorities themselves have acted as 'midwives' to their birth (Painter et al, 1997: 242). Our particular focus is on the latter. As the OTS explains:

> 'Over the last few years, and within a framework of public sector accountability and commissioning, social enterprises have been formed from within the public sector in a number of areas of delivery…. Such new forms of provider offer another potential way of delivering services that can harness the power of local communities through mutual, community and employee ownership or management'
> (OTS, 2006a: 30)

One of the most widespread examples of how the public sector has sought to harness social enterprise in this way is through 'new leisure trusts' (NLTs). The most commonly-cited example is Greenwich Leisure Limited (GLL) in South London, but trusts have now been developed in over 100 local authority areas in the UK (Simmons, 2003; 2004). They have been praised for their ability to bridge sectoral boundaries, and are now being held up as successful examples of what social enterprise has to offer in the delivery of public services (e.g. OTS, 2006b; Social Enterprise Coalition, 2004; DTI, 2002; Mayo & Moore, 2001). Before we move on to consider this case, however, it is important that we understand the criteria by which the role and potential of such social enterprises might be assessed.

Delivering Public Services through Social Enterprises

Despite policy exhortations for the greater involvement of SEs in public service delivery, the public sector and social enterprise are still in the process of learning about each other. As a recent Treasury/Cabinet Office report observes, 'there is a desire to be able to demonstrate the third sector's impact more persuasively through a stronger evidence base' (Treasury/Cabinet Office, 2006: 42) – an observation that applies equally to the evaluation of social enterprises. At least two factors combine to make this a challenging task. First, as we have established, the diversity of social enterprises (historically, structurally and functionally) makes generalisation difficult. Second, the incremental way in which social enterprises establish 'alternative but also socially and economically effective spaces' can make it difficult to identify their radical impact (Arthur et al, 2004: 13). For example, it can take time for the grounding in everyday working practice of such characteristics as self-organisation ('doing it for ourselves'), dialogic forms of regulation, and a concern for both social and economic outcomes. This set of arrangements may therefore only gradually gain legitimacy through demonstrating success and survival (Arthur et al, 2004). Nevertheless, a number of elements are held to apply in common to social enterprises, and these provide at least some basis for an assessment of the potential of social enterprise to deliver improvements in public services (Hart & Haughton, 2007). A number of potential benefits and pitfalls have been identified, which we can address in turn.

According to the Social Enterprise Strategy (DTI, 2002: 8), successful social enterprises exemplify four key values:

- Enterprise
- Competitiveness
- Innovation
- Social inclusion

Enterprise relates to social enterprises' attitude to risk. In comparison with the public sector, where political decision-making and accountability may tend towards a more risk-averse environment, social enterprises may be considered to have a more

dynamic, adaptable, and flexible approach (Treasury, 2002b). *Competitiveness* relates to social enterprises' ability to do the 'same for less'. In today's procurement environment, this means not only being able to provide the same quality of services for less than the public sector is currently paying, but also being able to do it for the same or less than commercial private sector competitors. *Innovation* relates to social enterprises' ability to work creatively and find new solutions for service delivery problems, whether this involves actively inducing change or adapting quickly to changes driven by outside forces (OTS, 2006b; Glor, 2002). The relative autonomy and manoeuvrability of social enterprises (compared with public sector authorities) may be seen to provide them with particular advantages in this respect. Finally, *social inclusion* relates to the way that social enterprises approach their relationship with the communities they serve. Social enterprises are often seen to be socially inclusive in the extent to which they are: (i) able to achieve a close understanding of and commitment to their client groups (Treasury, 2002b), and (ii) inclined to include a diverse range of stakeholder interests in their governance structures (Westall, 2001; Turnbull, 2001).

Yet the use of social enterprises for delivering public services has often been hampered by uncertainty (DTI, 2003b). This uncertainty has largely centred on three factors:

- Survival/performance of service
- Ethos of the organisation/'Cultural fit'
- Accountability and partnership factors

With regard to the *survival/performance,* there may be uncertainty about the ongoing viability of a social enterprise, its risks of performance failure and/or contract dependency, and its ability to generate a flow of suitable alternative business to balance public sector contract activity (DTI, 2003b: 11). Questions have also been raised about social enterprises' ability to raise development finance from financial institutions (DTI, 2002), a matter that prompted a review by the Bank of England (Bank of England, 2003). With regard to the *ethos of the organisation*, the issue relates to anxieties in some quarters over the loss of what has been called the 'public sector orientation' once services are no longer delivered directly (Corry et al, 1997).

Even where the case for partnership working has been accepted, there are often related anxieties over the *'cultural fit'*, or scope for an alignment of objectives and agreement on action (Huxham & Vangen, 1996). Hence, for some observers it remains unclear as to whether the development of a partnership with social enterprise will generate 'synergy' or not (e.g. Huxham & Vangen, 2000). *Accountability* issues generally relate to the 'democratic deficit' that is often said to apply in local agencies, whereby 'democratic accountability' is weakened (i.e. control is not held exclusively by democratically-elected representatives), even if 'managerial accountability' is ostensibly made more robust (i.e. service managers are more directly accountable to service users) (Pollitt et al, 1998).

Developing the evidence base in relation to SEs' involvement in public service provision requires us to see how the above issues work out in practice. In this article we address the following overarching question: is the combination of entrepreneurial skills and social purpose in social enterprises a useful model upon which public service partnerships could be based? More specifically, we ask:

- How do the above positive values associated with social enterprises translate into actual, real-life practices? For example, within public service partnerships, how do SEs balance the need for enterprise, competitiveness and innovation with the need for social inclusion and the maintenance of a 'public service orientation'? If the practices of a social enterprise are too closely identified with the commercial sector, will it be called into question for underplaying its social role? Conversely, if its practices are too closely identifiable with those of the public sector, will its entrepreneurial role be called into question? These questions bring into relief a range of tensions and conflicts for social enterprises, which, as the DTI (2002) points out, have to meet both a financial and social 'double bottom line'.

- How seriously do the issues of survival, cultural fit and accountability impact on the effectiveness and sustainability of social enterprises' ability to provide public services? Support for and growth of social enterprise solutions depends on reassurance being offered over such matters.

In considering these questions, this article examines the evidence from the specific case of new leisure trusts, before considering whether there are more general lessons that might be learned about the use of social enterprises to deliver public services.

The Case of 'New Leisure Trusts'

New leisure trusts are 'non-profit distributing organisations', currently set up as either Industrial and Provident Societies for the benefit of the community (IPS) or as companies limited by guarantee (CLG). The council generally retains ownership of the facilities, leasing them to the trust, whilst also providing an annual grant to make up the difference between the trust's income from user charges and the cost of operating the service. Trusts have been widely presented as a 'partnering' vehicle (Lowenberg, 1997; PSPRU, 1998; Glover & Burton, 1998). Their heritage lies in the 'creative defence' (Elcock, 1994) of leisure services against two perceived forms of attack. First, as a non-mandatory council service, cuts in local government finance have increasingly placed leisure under threat (Taylor & Page, 1994: Ives, 2003). The advantages of trusts in defending against financial pressures are relatively straightforward: "A [trust] can obtain business rate relief and VAT savings which is an attractive option for local authorities faced with hard choices on budget cuts, closures, reduced services and redundancies" (CPS, 1998: 17). The second defence represents an attempt "to preserve a social welfare orientation in the face of what many considered to be an inexorable shift towards the 'commercialisation' of leisure services" (Curson, 1996: 46). Given the requirement for local authorities to use and develop competition as an essential management tool under Best Value (DETR, 1998), such concerns have meant that transfer to a new leisure trust (as opposed to a private sector company) has commonly been seen as the 'lesser of two evils'.

This article draws on research to examine the experiences of new leisure trusts in providing this important local public service. The research sought to see how matters work out in practice with regard to culture change, performance, accountability/control, and governance/partnership. Evidence was sought from five cases, to establish how the change in organizational form had affected the service (see Table 1).

Trust	Organizational structure	Size	Services provided	Governing board
A	CLG	L	Sports facilities	Mainly Appointed, Multi-stakeholder
B	IPS	M	Sports facilities	Mixed Elected/Appointed, Multi-stakeholder
C	IPS	S	Sports facilities	Mixed Elected/Appointed, Multi-stakeholder
D	IPS	L	Sports facilities	Mixed Elected/Appointed, Multi-stakeholder
E	CLG	M	Sports facilities	Mainly Appointed, Multi-stakeholder

Key: CLG: Company Limited by Guarantee; IPS: Industrial and Provident Society; L (Large): ten or more different facilities; M (Medium): between six and nine different facilities; S (Small): between one and five different facilities.

Table 1: Scope and characteristics of NLTs consulted

These NLTs were widely spread: from Scotland, to the North, Midlands, South West and South East of England. They were chosen to represent organizations of different size, different organizational structure and different choices about how the governing body was constituted. Comparisons were drawn between their experiences before and after transfer. Data collection included semi-structured interviews with key informants in both trusts and their 'parent' authorities (N = 25), focus groups with operational staff (N = 5), and documentary analysis. Key informants included senior trust managers (e.g. Chief Executive/Managing Director, Operations Manager, Finance Manager, Human Resources Manager), managers of individual sports facilities within the trust, senior officers of the parent authority responsible for regulation/partnership issues, and local councillors. In each case data was collected in the period following transfer. 'Hard' performance information about length of opening hours, staff turnover/absence, service usage, income and expenditure was generally available for the period since transfer had taken place. However, in some cases not all of this was available in the same format for the period prior to transfer, meaning that comparisons had to be taken on a 'balance of probabilities' from all the available evidence (cf. Pollitt et al, 1998). Additional evidence included 'softer' indicators such as culture change, the effectiveness of governance structures, accountability measures, and user involvement. In this article, the above evidence is examined in the light of the criteria developed in the previous section – (i) success criteria and (ii) sources of uncertainty. The article subsequently seeks to identify the

potential lessons to be learned from this example, as a contribution to the debate about harnessing social enterprise for public service delivery.

Enterprise, Innovation and Competitiveness

Evidence from the trusts on the purported advantages of social enterprises is encouraging. These new, independent organizations tend to be more entrepreneurial. Staff often have opportunities for a higher level of involvement and a greater sense of ownership over the success of the new organization. For some this had made their work more challenging:

> *"It's been a tough schedule, with lots of change in a short period…People are now being asked to work in a different way, and some people can't cope with that"* (Managing Director, IPS)

However, at least as many staff were clearly enjoying the change. In terms of enterprise, innovation and competitiveness, senior trust managers in all trusts reported being able to use financial resources more flexibly, and to make more responsive decisions without needing recourse to lengthy local authority procedures. To a large extent this was also the experience of facility managers, although it was often felt that this was accompanied by stronger regime of reporting/accountability to senior managers than it had been before transfer. Frontline staff also reported that change tended to happen more quickly, enabling them to be more responsive to user needs:

> *"We've had loads of work done…Its busier now – but it's absolutely great, isn't it?"* (Centre Manager, IPS)

> *"We are all very busy, busy…Things we have been wanting to get done for ages are now possible…It forces us to work doctors' hours, which is tough - but we are all heartened by it, we're all able to benefit"* (Chief Executive, CLG)

> *"The level of activity has definitely gone up… We are much busier now – you can see it all around you. You find yourself working longer hours, but funny enough a lot of us are enjoying it"* (Duty Manager, IPS)

With the right structures and support in place, transfer can raise the level of activity and the intensity of that activity quite significantly. These conclusions are supported in the wider literature. As the Sports Council (1994: 3) suggests, trusts provide staff with a 'fresh opportunity', and 'an impetus for renewed enthusiasm': "the independence of trusts enables a more entrepreneurial, opportunistic, flexible and responsive style of management to develop". Managers also identify benefits in being able to focus their efforts exclusively on the leisure service. As Curson (1996: 43) observes, "the fact their operation is a core activity rather than a fringe activity of a multi-functional organisation with other priorities is important to trusts' success".

To some extent, increased entrepreneurialism is driven by the increased need for trusts to compete with other leisure service providers in their environment. The sense of standing alone and having to compete to survive was widely perceived throughout the new organisations. As one facility manager told us:

> *"Before, we knew the council would always give us money. As soon as we went to a trust that string was cut. Now if we want anything, we shout but we're told to go away"* (Centre Manger, IPS)

However, this greater autonomy has also brought a sense of being able to respond, and a feeling that they have broken free from some of the shackles that had held them back before.

> *"When we were with the council people were stuck in a rut - they felt depressed and threatened. Now that has changed"* (Centre Manager, IPS)

> *"Nowadays, if I can respond there and then to our customers, I will. Now we're in a trust I've been told I can just get on with it, within reason."* (Centre Manager, IPS)

> *"You don't have to keep running backward and forward to committee…The board don't give carte blanche, far from it, but we get yes-no support when we go to them – there is a shorter chain of command"* (Operations Director, CLG)

The tensions between external and internal drivers for improved performance are exemplified in the words of one managing director:

> *"The need to survive forces us to examine all management issues – is it economic, efficient, etc…..but our ability to focus and put in resources that we couldn't before also forces us to constantly re-evaluate and respond to the needs of our community".* (Managing Director, CLG)

Undoubtedly, there is general recognition in all trusts of the importance of financial objectives. Not meeting targets, one trust manager observed, "would put jobs at risk". However, the ability to plough operating surpluses back into the service was also widely reported by staff at all levels to be a 'real incentive' to good performance - particularly where this feeds trusts' ability to progress their social objectives (such as equality of access, maintaining programme diversity to meet users' needs, and conducting development and outreach work in the community). This commonly-held commitment to achieving social goals gives a good indication that the 'public service ethos' continues to operate in these NLTs.

Following transfer, the sampled trusts all reported a more intense focus and higher levels of corporate activity. This indicates an increased level of output. Trusts also claimed that this additional output had been achieved with reduced financial support from their parent authorities, which indicates a reduction in the level of inputs. The change in this input-output ratio suggests improved economy and efficiency in NLTs. Of course, NLTs are not immune to bad management. One trust not included in the sample did fail. Described by a key respondent as 'headless', this organization was eventually taken over by another successful NLT. This highlights the need for all key stakeholders to support the transfer and be prepared to see it through.

> *"If they're up for it they will make it a success. If they're not on board – do something else"* (General Manager, IPS)

In the sampled trusts, the overall impression of improved performance was supported when we looked at key indicators such as usage, income and expenditure; all appeared to be performing well. For example, in one trust where the pre- and post-transfer comparison was relatively straightforward an increase in usage of 7.5 per cent and in turnover of 35 per cent was reported. There had also

been an impact on staff morale, with staff turnover at 16 per cent (against a leisure industry norm of 25 per cent) and sickness at four per cent (against a level of nine per cent prior to transfer). In all cases, the indications from both documentary and anecdotal sources were that these kind of improvements were fairly typical.

The wider literature reports similar gains. For example, in South Oxfordshire a 9% increase in attendances in 1999/2000 was followed up with a further 23% increase in 2000/2001 (This is Oxfordshire, 2001). Similarly, in Islington usage increased from 1.75m visits in 1997/8 to just under 2m by the end of 1999/2000 (Aquaterra Leisure, 2000). Similarly, Mayo & Moore (2001: 17) consider the example of Greenwich Leisure:

> "…a highly successful enterprise, which has increased the number of facilities in Greenwich from seven to eleven and trebled income in the last six years to over £9 million. At the same time it has more than halved the cost to the local authority for providing the service – and incidentally won quality marks under Investors in People, Charter Mark and ISO 9002".

Increased income and reduced expenditure tie in well with trusts' objectives of survival. There is also evidence of growth, mostly through investment in state-of-the-art fitness and soft play facilities to capitalise on recent trends. Furthermore, improved financial performance provides trusts with the ability to cross-subsidise loss-making services (Allen, 2001). However, another key question concerns trusts' performance against their *social* objectives. This involves responding to community needs and ensuring equality of access through the allocation of space, setting up of new facilities and equipment and provision of specialist staff. Again, evidence in all the sampled organizations showed these objectives to be taken very seriously. For example, two trusts had established arrangements for 'GP referral' to their fitness facilities, providing space and professional support to support community health objectives. All trusts had also maintained concessionary pricing arrangements - in one example even extending these to give free swimming to all children under 14. Additional community outreach work is also widely reported. For example, staff in one trust reported going out to rural areas in the district to encourage greater levels of participation, "instead of being complacent and expecting them to come to us". Most trusts do see their commitment to social objectives as more than simply a

continuation of the pre-existing arrangements. There is therefore a sense in which things have been - as one councillor put it - "refined and honed", to a point where resources are now being used more effectively to support progress in these matters. As a long-standing centre manager in one trust told us, "there has always been a focus on things like this – but not to the extent there is now".

Social Inclusion

In relation to other aspects of social inclusion the story is more mixed. Trusts are governed by a board of directors (or equivalent committee). Corporate governance is therefore claimed to provide an arena in which stakeholder perspectives can come together for dialogue and negotiation, and trusts' involvement of staff, service users and community representatives on the board is often promoted as a step forward in this respect. For at least one former trust Chief Executive, community involvement provides 'the greatest advantage': "We have 90 shareholders representing community groups, so they are all feeding us information about the local population" (David Kerrigan, quoted in Ramrayka, 1996). However, as Lowenberg (1997: 53) has pointed out:

> "[Transfer] can produce closed, secretive, unresponsive organisations. The challenge for local authorities is to design the [trust] mechanism to promote effective involvement".

In practice, all of the trusts studied had different levels of representation from staff, users and the community on their governing structures, and different ways of engaging with them more widely. Staff representation was only possible in those trusts established as IPS; charity legislation prescribes against this in the CLGs. This has been claimed as an advantage by the Managing Director of GLL in terms of the inputs to governance (Sesnan, 1998). Managers in the sampled trusts agreed:

> *"Communication is a big issue. It was 'them and us' before between management and the staff – they'd never tell us anything. We now have more group meetings - it wouldn't have been done under the council. Now there is very little 'them and us'…after all, all the staff are shareholders"* (General Manager, IPS)

> *"Staff are much more involved and committed. Democracy is important – if its being voted on they want to know what's going on"* (Centre Manager, IPS)

> *"We are running our own company - we are making our own decisions"*
> (Frontline staff member, IPS)

Even in trusts established as CLGs, however, new opportunities are arising for staff involvement. This was widely acknowledged to be a positive thing:

> *"We're now getting invited to sit on things like the Staff Consultative Group. This would never have happened before. No chance."* (Duty Manager, CLG)

In all cases there was some user and community representation. However, given a lack of a clear constituency to elect them, they were generally nominated or appointed from local interest groups and organizations. This has led to some confusion over their roles as 'citizen governors' – is it predominantly to help steer the organization effectively, or to represent a user/community constituency? (Simmons et al, 2007). The inclusion of users and community representatives was universally considered to have been positive in this research, even by councillors who had previously enjoyed authoritative control over the service. Even so, trusts are beginning to embrace the democratic involvement of service users only cautiously, and when pressed on the matter there is often a recognition that they have 'more to do'. This is problematic for some commentators, who insist that organisations such as NLTs, where there is a strong public interest, should be willing to give a stronger voice to informal stakeholders such as service users (Kumar, 1996).

This would suggest stronger structures and processes for user involvement and participation beyond the Board – something that has not been widely considered or implemented by the sampled NLTs to date. One trust had specialist consultative groups for golf and climbing. In another trust focus groups were used to investigate particular marketing issues – for example the popularity of a new fitness class. However, these initiatives were piecemeal and did not feed into the governance structure directly. Even user surveys were used sparingly. As has been reported more generally for leisure providers (Guest & Taylor, 1999), there is a certain

disenchantment with such methods, and the results do not appear to get fed systematically into the formulation of aims and objectives.[1]

Survival/Performance of Service, Ethos of the Organisation/'Cultural Fit', Accountability and Partnership factors

These areas were identified earlier as potential concerns over the use of social enterprises for local public services. Uncertainty underpins many of these anxieties. The future viability of trusts may seem uncertain, dependent upon the future actions of central government over NNDR and tax regulations. Also, councils often fear a loss of control following transfer to a NLT, reflecting the fact that significant financial and political investments have been made into leisure services over the years. This can lead to a resistance to hand over assets and responsibility for the stewardship of services to what may be seen as an 'untried and untested' independent organisation.

Again, though, evidence on the ground is relatively encouraging. As we have seen, in general the trusts are performing well. Their survival and performance might be compromised by (i) the future availability of financial advantages, or (ii) their ability to raise capital finance. With regard to the first of these factors, changes in current regulations governing VAT and NNDR could certainly negate the key financial advantages for leisure trusts. However, such changes are currently thought to be unlikely, given the government's commitment to social enterprise models. With regard to the second, there is conflicting evidence over trusts' ability to raise the significant levels of finance required to refurbish or build new facilities. Several trusts (e.g. Barnsley, Greenwich, Sheffield) have been able to attract significant investment – often from sources which would be inaccessible to local authorities. Nevertheless, one of the earliest trusts, 'Leisure Link' in Bexley, found that investors were reluctant to come forward (Best Value Inspection Report, LB Bexley, 2001). This led to a Private Finance Initiative (PFI) scheme being preferred. Successful trusts have demonstrated that fundraising and alliance building skills are important and that complacency in these matters should be avoided.

So what are the other issues as far as the ethos of the organisation, 'cultural fit', and accountability are concerned? Several issues have been put forward:

- Loss to the council of control over services
- Loss to the council of their ability to plan strategically for the needs of the whole area
- Erosion of the 'public service orientation'
- Probity and the nature of accountability

Whereas councils have traditionally enjoyed direct and authoritative control of the local leisure service, they must rely on more indirect forms following transfer (Simmons, 2001; 2004). For the Sports Council (1994: 3), "the erosion of the local authority's strategic control is a major issue". Indeed, 'members' fears over loss of control' has been quoted as the most important factor in local authorities rejecting the trust option (Thurrock, 1997; Simmons 2003). Against this, however, it has been argued that synergy may be created in the new organisations by bringing together a range of stakeholders in their governing structures (Huxham & Vangen, 1996; 2000). The suggestion here is that multi-stakeholding promotes a meaningful dialogue between stakeholders and reduces imbalances in the information and power held by each of them. This provides for an alignment of objectives and agreement on action (Huxham & Vangen, 1996) and also a system of checks and balances to help avoid the corrupting influence of power (Turnbull, 1997; 2001).

In practice, experience seems to reflect the latter position. All trusts in the sample were all keenly aware of their multiple accountability relationships, admitting a range of stakeholder interests to the Board. In almost all cases, this has brought a positive payoff. Incorporating the perspectives of service users, staff, business interests and the wider community is widely acknowledged to have raised the level and quality of debate over service provision - even by councillors formerly solely responsible for the service.

Trusts are generally regarded as being closer to the public sector than the for-profit private sector. However, some argue that the public service orientation associated with local authority services may still be eroded following transfer, (CPS, 1998). Despite the 'more businesslike' environment managers in the trusts have noted,

however, the movement to a more managerial culture has rarely been demonstrated to have had deleterious effects. It is common for trusts to report that greater autonomy and a single-issue focus have allowed more attentive management, a more dynamic approach, greater flexibility, and less 'political interference' in their work. Yet while these factors may be keenly felt, and contribute significantly to the sense of a changed organisational culture, this does not appear to have led to an abandonment of the more traditional values associated with public sector services. Nevertheless this is not to say that, if it is allowed to become excessive, autonomy does not carry dangers. Lane (1995: 110) identifies the tensions here:

> "Without [autonomy] implementors cannot utilise their capacity to judge what means are conducive to the ends and adapt to environmental exigencies. However, complete autonomy for implementors would mean an absence of restrictions on their behaviour, so negating the fundamental accountability nature of the interaction between citizens and implementors".

The link between autonomy, performance and accountability is therefore important, and this provided another aspect for our research.

Accountability and Control

While managerial autonomy may have increased performance in NLTs, the interests of different stakeholders need to be incorporated into their accountability relationships. Trusts' responsibilities stem from the specification by the parent authority of organisational activities, outputs and outcomes in such mechanisms as leases and funding agreements. From this perspective, the purpose of accountability "is to govern the relationship between those who delegate authority and those who receive it" (Simey, 1985: 237). However, as well as this more formal sense of accountability (or 'agency'), there is also a more informal sense (or 'moral obligation') (Thomas, 1998). This informal element is often of equal significance, representing responsibility for meeting the diverse expectations of other stakeholders such as workers and service users.

For organisations such as leisure trusts, Kumar (1996: 246) argues that "the pull in terms of accountability is likely to concentrate on the dominant actor who has strong voice and exit opportunities", particularly if sanctions involve the withdrawal of financial resources. Actors with strong exit and voice therefore tend to be state funding agencies. Discussions with trust managers and staff show there is little doubt who is seen as the leading stakeholder. As one Centre Manager expressed it, "the council is king". However, Johnson *et al.* (1998: 324) have noted that for state funders there are issues surrounding the availability and use of exit. The closure of an agency or the withdrawal of the contract are ultimate sanctions, but the possible political repercussions and the interruption of service mean they will be used only as a last resort. The use of 'exit' sanctions is therefore problematic for parent authorities.

> *"The council's power is mediated by the consequences of using it. They have absolute control but no control"* (Chair, CLG)

> *"Exertion of the council's influence has never been tested – I hope it won't be"* (Local Councillor)

Maintaining an appropriate level of influence over NLTs involves a greater role for 'voice', and local authorities are beginning to establish a new dialogue with trusts, even though their influence may now be seen as more indirect, flexible and subjective as it crosses organisational boundaries (Skelcher, 1998). Authorities retain a strong leverage over the way trusts conduct their business via clauses in property leases, service level agreements tied to the annual revenue grant and involvement in corporate governance structures. Rather than direct control, however, these arrangements require the 'management of influence' (Stewart, 1995). This influence was generally considered in the trusts to be very strong, but it was also recognised that parent authorities now have to 'bob and weave' in a constant process of negotiation and renegotiation with the trust as a principal in its own right.

> *"The council's influence is always there – they hold the purse strings in the last resort"* (Centre Manager, CLG)

> *'Their influence is <u>as</u> strong on aims and objectives, but less strong on how to do it'* (Centre Manager, IPS)

> *'We don't have freedom to decide direction - this is tied up with the council.*
> *But we do have greater freedom to manage…it's an implementation thing'*
> (Senior Operations Manager, CLG)

Some suggest that "the ability of elected officials to respond to public pressure and change aspects of a service on a day-to-day basis is gone" (Corry *et al.*, 1997: 45). However, the movement away from the authoritative relationships previously enjoyed by elected members does not appear to have had any notably deleterious effects. Important issues emerging from the political process may still be brought forward - for example through formal representation of the Council on the board, where they can be discussed with other board members drawn from a range of backgrounds and perspectives.

For informal stakeholders, voice is also the most effective available form of influence. Yet in the absence of stronger formal sanctions this may not represent much of a threat. Here accountability "depends rather less upon any clearly defined right of those accounted to and rather more on the willingness of those who are accountable" (Leat, 1988: 20). This has led to familiar accusations of a 'democratic deficit' in the NLTs. Trusts argue that this deficit is balanced out by gains in managerial responsiveness to the concerns of service users. For some commentators, however, the mechanisms of managerial accountability do not go far enough to fully redress the balance. Kumar (1996: 250) puts it quite simply: "In order to operate accountably, organizations need a forum where stakeholders can _negotiate_" (emphasis added).

Corporate governance provides an arena in which stakeholder perspectives can come together for dialogue and negotiation. As we have noted, the inclusion of a range of stakeholder interests to the Board has brought positive payoffs in all the trusts sampled (even if their wider participatory structures could be strengthened). In this way, trusts' multi-stakeholder governance structures can provide new ways of doing business, working with parent authorities to meet strategic goals in ways that use the strengths of each to the benefit of both.

These arrangements form the basis of an emerging sense of partnership between trusts and their parent authorities, and they are proving to be both popular and effective. Partnership is a key issue for both trusts and their parent authorities. From trusts' point of view, the push is likely to be for greater autonomy.

> *"In regard to the partnership there are still some issues to be resolved - the relative autonomy of the Board, the scope of its independence of action and arrangements for the use of surpluses"* (Chair, CLG)

However for parent authorities, tensions may arise around their responsibilities in simultaneously contributing to the partnership whilst exercising control. As one senior council officer put it:

> *"It's not a policing role - we regard it very much as a partnership issue. On the other hand we are publicly accountable ourselves and have to be clear that money is being used effectively"*

The balance between organizational autonomy and local authority control/influence remains at the heart of these new partnerships. An insight into these issues, alongside an understanding of what constitutes 'positive partnering', should form a fundamental part of our understanding of the relationships upon which future service delivery and service development in 'mixed format' SEs such as NLTs is coming to depend.

Harnessing Social Enterprise for Public Services: some lessons?

What lessons can be learned from the example of NLTs when it comes to the wider involvement of social enterprises in public service delivery? As Hart & Haughton (2007) observe, it is possible to assess the 'value added' of the social enterprise model, but this requires detailed study of specific social enterprises and their local contextual circumstances. The limited scope and largely qualitative nature of this study mitigates against generalizing too widely. Nevertheless, this case throws up a number of issues around performance, accountability, governance and partnership, which also feature strongly in the more generic discussions of social enterprise in the academic and policy literature (e.g. DTI, 2002; DoH, 2006; OTS, 2006b; Paton, 2003; Lloyd 2002; Arthur et al, 2004). We therefore feel able to identify areas where

others may learn from NLTs' experiences. In particular, it is believed that trusts share a number of attributes with other 'mixed format' social enterprises, which have both a contract management and community role, and an ongoing need for legitimation from key stakeholders.

As stated at the outset, the public and social enterprise sectors are still in the process of learning about each other. It sometimes remains unclear as to whether the development of partnerships with social enterprise will generate 'synergy' or not. According to Stewart (1996: 7), 'there is no point in a partnership if it does not add value. It will add value by bringing in resources that are not otherwise available (financial, skills, power)'. However, more recent analyses have emphasised that partnerships should not only focus on the inputs into a particular project or programme, but also on some shared responsibility for outputs/outcomes. Hence, partnerships involve a form of power in which actors gain a capacity to act by blending their resources, skills and purposes (Stoker, 1998). In the main, NLTs provide a good example of how social enterprises can work to achieve synergy from both of these perspectives. More specifically, this synergy arises from the combination of entrepreneurialism (in greatly improved input/output ratios), and social performance (strong commitment and action to meeting social objectives). In terms of the capacity to act, synergy also arises from the design of the partnership and governance models. The partnership model works through the combination of 'strong' measures such as the termination of leases, grounds for ongoing negotiation over quality and quantity in the service-level contract, and spaces within which such ongoing negotiation can take place (such as Council representation on the Board). The governance model works through enhanced stakeholder involvement, widely acknowledged to have led to a greater alignment of objectives and agreement on action through enhanced levels of dialogue and debate. It therefore seems that there are gains to be made from partnerships between the public sector and social enterprises where:

(i)   Entrepreneurialism and autonomy are likely to provide efficiency gains

(ii)   There are clear social objectives for the service that must be maintained

(iii)   There are a number of legitimate stakeholder constituencies whose voices should be included in governance

(iv)   Both public sector authorities and social enterprises are committed to 'positive partnering'.

Trusts' experience shows that local government partnerships with social enterprises can provide improvements against the key values of enterprise, competitiveness and innovation. With regard to enterprise, there is little doubt that trusts have a different attitude to risk. As one trust representative has put it, 'speculating to accumulate isn't really something local authorities are good at' (Wallis, 1999). This enterprising approach is supported by an increase in managerial and financial autonomy, and an output orientation that appears to encourage greater dynamism, responsiveness and innovation. As well as gains from a more entrepreneurial approach, social enterprises may be able to access relief from such expenses as VAT and business rates, meaning that in effect the same service can be run for less. However, social enterprises must remain aware that where the contractual arrangements for public funding are regularly renegotiable, efficiency savings in one period can be absorbed by reductions in their revenue grant the next. This carries the risk of de-motivating managers and staff in the new organisation, and (as one trust chief executive put it to us) 'killing the goose that lays the golden egg'. Issues of incentivisation are therefore important for all social enterprises, and should be set against the strong expectation in the recent local government White Paper that local authorities will pass on funding stability to the third sector (DCLG, 2006).

Local government partnerships with social enterprises may also provide a better balance between operational autonomy and control from the council. The combination of social enterprises' 'double bottom line' and service managers' increased decision-making autonomy appears to help better achieve financial objectives without marginal costs to social objectives. The benefits of autonomy identified by trust managers include clearer goal setting, more proactive management to these goals, increased use of performance-related incentives, greater attention to organisational communication strategies, and improvements in the quality and usage of information management systems. Yet in these and other aspects, social enterprises often mirror the characteristics claimed for their commercial competitors. It is worth noting that social enterprises must ensure that their performance profile is at least comparable with that of other organisational

forms, and therefore this degree of similarity is to be both expected and welcomed. However, there is little to be gained from the simple emulation of the commercial sector. Arguably, what is different about social enterprises is the way in which a distinctive set of values is put into practice, particularly around inclusive arrangements for service provision, governance and user involvement. Alongside good financial performance, social enterprises therefore need to pay equal attention to developing their 'inclusive potential' through a firm connection with the communities they serve if they are to make the most of what constitutes their 'unique selling point'.

Relatedly, newly-created social enterprises' cannot afford to be complacent that their 'social bottom line' will be enough to protect them from the forces of competition to which they have been exposed. While they may initially enjoy a degree of political commitment stemming from their ability to both retain key social objectives and save money, such support may be short-lived if commercial competitors are able to offer an ostensibly similar service at an even lower cost. The real-world reality in some locations is that some private contactors are claiming to be able to do this, because they are able to spread their overheads over a much larger volume of work. In order to compete in financial terms, SEs may therefore come under pressure to spread their own overheads by taking on contracts across a wider geographical area. This is particularly likely to happen if SEs are unable to demonstrate how (and to what extent) their social objectives are achieved. Social enterprises must stay aware of what other service providers can offer and find ways of remaining competitive. The experience of GLL, which manages leisure facilities in 9 local authority areas, shows that NLTs can compete to win contracts and grow their business. However, this may eventually have implications for social inclusion. As Chanan (2003: 28) points out, the promotion of social enterprise to deliver public services 'takes much of its moral force from some unspoken connection with the community as a whole'. This reflects their ability to generate and employ 'solidarity inputs' (Lloyd, 2002) at all levels – from retaining the interest and commitment of councillors and support from the local community and community organizations, to a greater sense of ownership and involvement from staff. Some SEs (including those formed from within the public sector) are already strong in this area. Others need to do more, for example by widening and deepening processes of user involvement, extending inclusive

structures and processes beyond the Board to the wider population of users and citizens. Expansion beyond one local authority area could undermine further progress in this respect, unless such SEs redouble their commitment to sustaining strong and inclusive links with the communities they serve.

In common with NLTs, all 'mixed format' social enterprises involved in public service delivery must be continually aware of the need to strike the difficult balance between the 'social' and the 'entrepreneurial'. However, it should be noted that the responsibility for this does not lie exclusively with social enterprises themselves. As far as possible, this balance needs to be agreed and have support from both sides of the partnership if there are not to be irresolvable tensions. This requires a constructive approach to partnership, and for both parties to commit to minimising 'inter-organisational distance' through openness and transparency, regular dialogue and negotiation. Where this distance is allowed to develop, it can be counterproductive for both partners. For example, in one trust the Council had closed down its contract monitoring department on the day of transfer, relying on monthly meetings between the Chief Executive of the trust and Chief Officer of the Leisure Department to conduct its partnership business. This had led to deep disappointments about future opportunities, at least on the part of the trust:

> *"I think the council should have a more proactive role in policy, with what we are doing, but they don't. In some ways that suits us because we can do what we want to - within parameters. But I think it would be of greater benefit to the service as a whole if there were joint policy work."*
> (Operations Director, CLG)

SEs need to balance their desire for autonomy with the need to maintain their credibility and legitimacy in managing a public service. Too much autonomy can provide problems in two ways:

(i)   If local authorities begin to feel out of touch, it may trigger additional accountability and reporting requirements which add significantly to the SE's administrative workload

(ii)   If SEs do not 'stay close' to their communities and local political leaders, this can result in a loss of commitment and political influence - something that may eventually undermine their position when re-tendering for management contracts

The DTI (2003b: 65) therefore suggests that SEs need to stand up and 'be proud', reporting regularly to all stakeholders and celebrating their successes in achieving their social and other goals. For their part, local authorities also need to stay in touch with developments; too often an 'out-of-sight, out-of-mind' mentality can develop once they no longer deliver a public service directly. In this scenario, key people can take their 'eye off the ball', reducing the authority's level of influence and/or allowing complacency (or worse, corruption) to set in. In reality, social enterprises and local authorities are locked together. A positive approach to partnering – developing greater openness and transparency, sharing responsibility for service planning and avoiding scapegoating and buck-passing - is therefore necessary if the relationship is going to work.

Social enterprises form a key part of the government's vision for an increased role for the third sector in public service partnerships. However, partnerships between local authorities and social enterprises will not be suitable for every local public service, or in every location. More specifically, there may be insufficient economic, social and political capital for social enterprises to emerge and thrive. As Sesnan (1998) has put it, their suitability depends on 'what you want to put in' (e.g. time, commitment, finance), and 'what you want to get out' (e.g. financial return, social return). Hence, the context is important, and some services/locations will be more suited to these kinds of partnerships than others. This is a matter for local debate. However, where the conditions are considered to be conducive, the case of NLTs shows that social enterprises can provide excellent partners for the potential synergy or collaborative advantage they are able to create. Furthermore, experience suggests that the potential concerns we have identified around incentivisation, relative autonomy and genuine social inclusion are implementation issues that can be minimized or eliminated through a more planned and proactive approach. In sum, we argue that this evidence provides further support for the continued interest of

policy-makers in harnessing social enterprises, including new leisure trusts, to deliver local public services.

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[1] In an interesting development, some more recent trusts established as IPS have extended the principle of 'membership' to local leisure card holders, rather than just staff. Projects such as 'Establishing Our Co-operative Advantage', currently underway at Salford Community Leisure provide an interesting way forward here. The difference that this step might make to social inclusion remains a question for future research.

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