



# The CFO Role in Big Society Issues and challenges

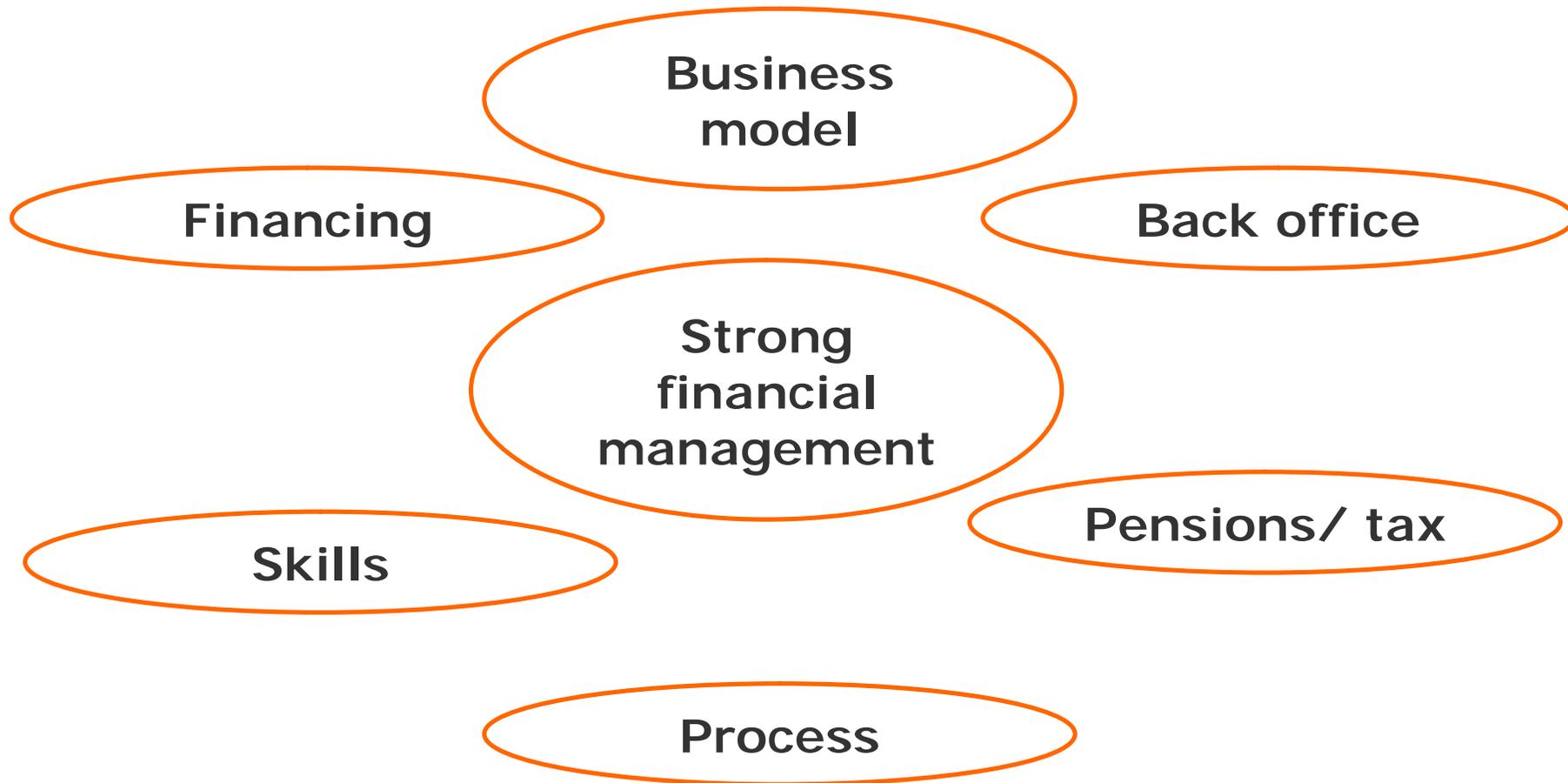
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## My contention

- Big Society and “Right to request” will drive a fundamental change in public service provision
- ‘Social enterprise’ may become major public service business model
- CFOs are crucial to making this real and ensuring sound delivery
- We all have experience to share from analogous business changes eg CCT

## What should the CFO be concerned about?



## There are numerous business models including some new structures

- **Community Interest Company**
  - Launched 2005
  - Small but rapidly growing
  
- **Charitable Incorporated Organisation**
  - Now available in Scotland
  - Due in England & Wales later in 2011
  - Not yet available in Northern Ireland
  - One regulator:
    - Charity Commission (England & Wales)
    - OSCR (Scotland)

## Differing characteristics - examples

Characteristic	Charity	Co-op	CIC
Open membership	Optional	Yes	Optional
All surpluses retained	Yes	Optional	Optional
Asset lock	Yes	Yes, but <sup>1</sup>	Yes, but <sup>1</sup>
Charitable status	Yes	No	No
Issue member shares	No	Yes, if <sup>2</sup>	Yes, if <sup>2</sup>
Tax advantages	Yes	Limited	No

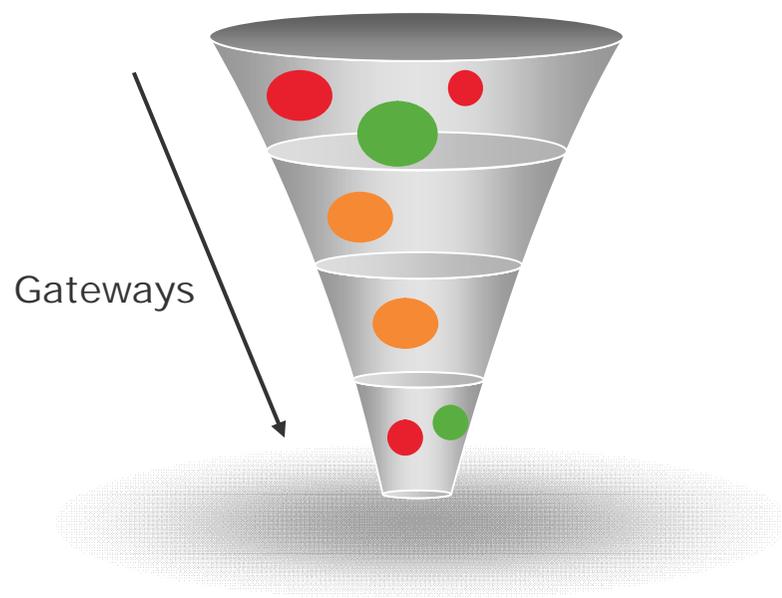
Footnotes:

1. Co-ops and companies able to revise asset lock terms in their governing documents
2. Can issue member shares if not a company limited by guarantee

## Choice of business model depends on what is important

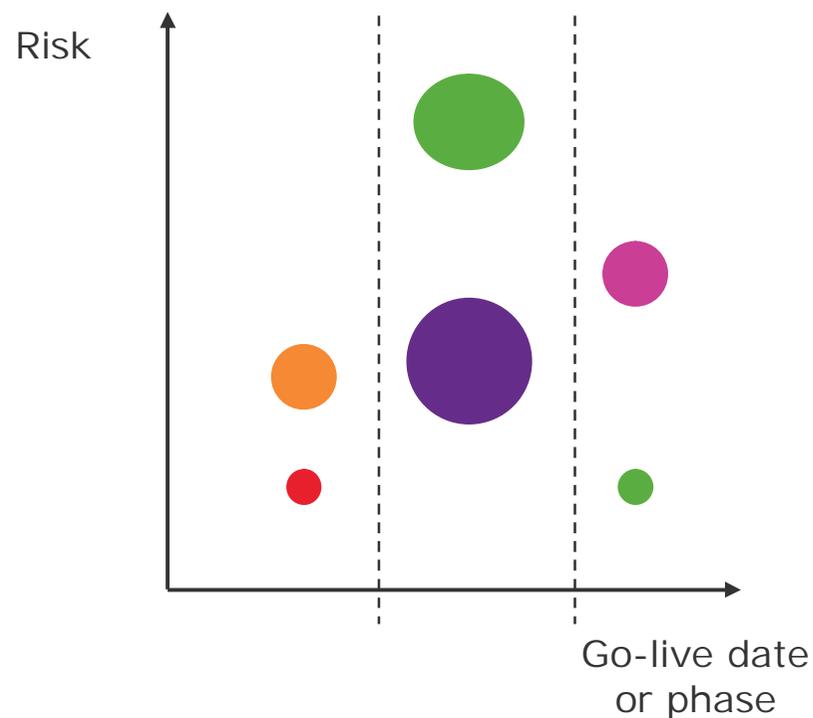
- Proven models of service delivery
- Effective as well as efficient
- Ability to leverage other sources of financing
- Potential range of operational income sources
- Reinvestment of surpluses
- Tax advantages
- Boundaries of trading activities
- Local economic development
- Community involvement
- Member based control
- Anchoring capital
- Staying close to knitting

## Choosing what's best needs a process



**Social Enterprise 'funnel'** – colour coded e.g. for risk, Directorate and/or SE form – shows number of business cases in progress and status through Gateways

**Portfolio approach** – size of circle proportionate to annual budget; colour code by Directorate and/or SE form



## Creating social enterprises - challenges for the Centre

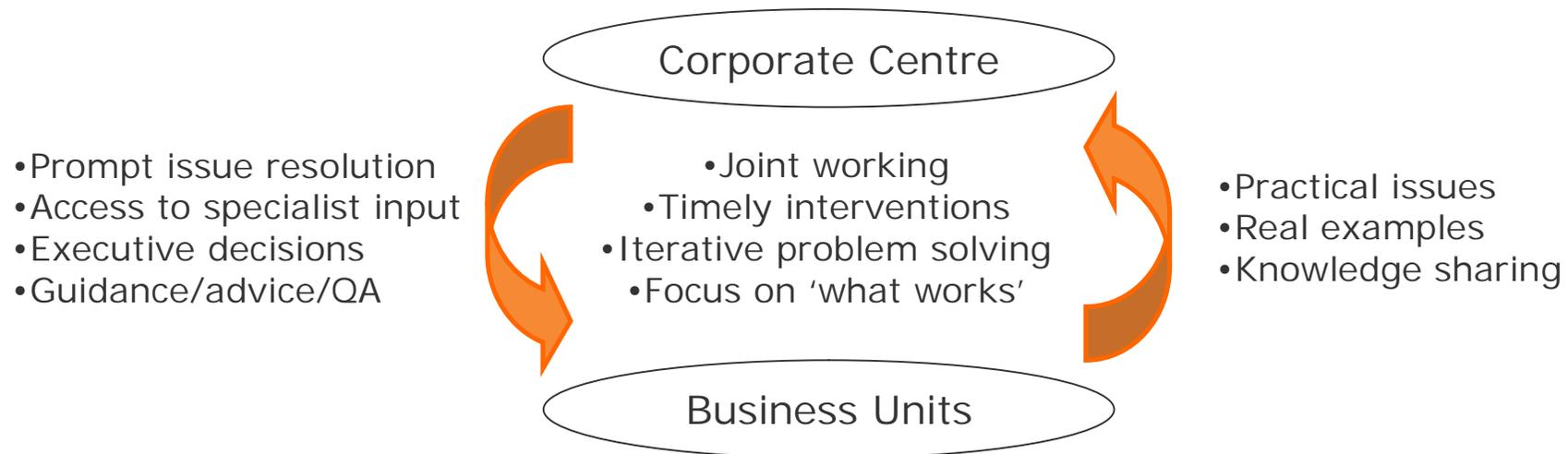
- Procurement issues – due process and standing orders may delay implementation
- Commissioning – staff need guidance on how to purchase from new organisations
- Maintaining momentum if expectations are raised – keeping up with Business Units and user groups
- Providing clear guidance to Business Unit managers
- Balancing top-down direction (e.g. large scale transformation) vs bottom-up enthusiasm (e.g. ideas generated at Business Unit level)
- Selecting possible pilot candidate services
- Capacity and experience within corporate centre

## Creating social enterprises - challenges for Business Units

- The 'rules of the game' are unclear e.g. approval process, guaranteed funding/contracts, timetable, fair deal on pensions
- Variable levels of skills to manage transition and survive in new commercial world
- Need access to advice on e.g. market assessment, funding/capitalisation, overall viability of proposed business models, appraisal of different SE forms
- Building/maintaining staff interest/commitment
- Engaging with user groups to allay fear of change
- Accessing commercial or other service partners
- Barriers to service change e.g. statutory duties
- Delivering better services and budget cuts whilst doing all of above

## The CFO should be supporting both Corporate Centre and Business Units

There are strong synergies from working top-down and bottom-up that will get to the right answer sooner...



## The CFO also needs to deliver a cost effective back office

- Review options for back office service delivery
- Examine potential for a shared service
- Create a new delivery model
- Possibly host and manage the delivery vehicle
- TUPE transfer relevant staff
- Manage change

**Beware the inefficiency of fragmentation**

## Pensions – a crucial staff issue

- What are the legal requirements?
- What pensions structure does the organization require?
- What are the pensions options?
- What are the financial consequences, both short and long-term?
- How do all parties manage their pensions risk, particularly the risk of employer default?

## Tax

- VAT – possible increase in irrecoverable
- Corporation tax

## Skills

- How can I support both corporate centre and business units whilst reducing staff numbers
- How do I ensure my staff have the skills to move with social enterprises
- What new skills are needed

## Financing – is philanthropy part of the answer

- The Library of Birmingham Development Trust was opened in a blaze of publicity by the Prime Minister in October 2010.
- Birmingham's new Library will be a modern centre for culture and learning, with services designed directly with the public's needs in mind.
- The Library of Birmingham Development Trust, an independent charity (and company limited by guarantee), will raise funds to complement Birmingham City Council's investment in the project.
- Its trustees are being drawn from leaders of the community who have a commitment to cultural services.



## Financing – the Big Society Bank and Social Impact Bonds

- New models being explored by organisations like Young Foundation
- Involves finance raised from the market or Big Society Bank, with investors taking some of the risk for non-achievement of social outcomes
- Action through a social enterprise or JV to manage a series of interventions with a target group
- Payments based on results against benchmarks.

# Transfer of services to social enterprises creates risk

- Democratic accountability
- Enterprise viability/ sustainability
- Thoroughness of option appraisal
- Market analysis
- Asset transfer
- Risk transfer/ retention
- Implementation costs
- Whole system synergies
- Speed of implementation and impact of regulation
- Procurement – contracts and regulations
- TUPE/ HR/ transition issues
- Staff retention and motivation

In short – it is a major change management exercise

## The CFO's role is to ensure strong financial management and leadership

- Fragmentation of service delivery and business models can weaken financial management
- Business failure needs to be considered – “safe failure” rather than “fail safe”
- Ensuring boards have quality financial advice
- Beware optimism bias

## CIPFA is gearing up for the Big Society ...

### Big Society

Market making/  
capacity building  
– developing new  
social enterprises  
with existing  
public sector  
bodies

Commissioning –  
building the  
skills and  
competences  
needed in this  
new  
environment

Supporting  
Charities and  
member based  
organisations

## We have created a new service – “Social Enterprise in a Box”

A CIPFA support  
service to promoters of  
social enterprises

Support services and  
advice

Appraisal of legal  
structures and key  
features

Simplifying the  
procurement decision  
for public service  
organisations

Understanding existing  
third sector provision  
and its ability to meet  
service demand

Working with a range  
of partners to deliver  
informed support

## We want to support the crucial work of CFOs...

- Understanding the key issues
- Ensuring understanding of models
- Sharing knowledge of financing options
- Supporting CFOs and Social Enterprise promoters
- Staying in touch with developments

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