

Rocket Science research report



“From Best Value to Social Value”

Building Social Value into Public Sector Procurement

Findings and recommendations for the public and private sectors

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About Rocket Science

Rocket Science is a public policy consultancy established in 2001 with offices in London, Newcastle and Edinburgh. We are committed to improving the lives of the most disadvantaged in society and achieve this by working with public, private and third sectors to help them design, improve and measure the impact of their services. A guiding principle underpinning all of our work is the development of practical solutions, and we work closely with clients at every stage; from helping them to reflect on the policy context and direction through to the design and implementation of effective local approaches, tailoring solutions to particular situations and drawing on best practice.

1. Executive Summary

The Public Services (Social Value) Act 2012 provides an opportunity for both the public and private sectors to work smarter to support local communities and economies and make the public pound go further. The Act places social value as a relevant and important consideration in the procurement and delivery of public services.

Rocket Science has conducted independent consultation into how prepared the public and private sectors are to embrace this new legislation due to come into force early next year (2013). We have always been convinced of the power of public procurement to bring benefits to communities and believe that through this new legislative muscle, there is a real opportunity to base procurement decisions on longer term impact rather than price alone. We wanted to test the readiness of both sectors and to identify some of the challenges in making this a tool for community and economic development. This consultation was conducted during May and June and comprised a survey and a roundtable discussion.

Nearly 100 contributions from economic development, procurement, policy and business development practitioners across the country are featured in the following report, with key findings and recommendations summarised here. We would like to thank all those who contributed responses and made this report possible.

1.1 Research Findings

This consultation has highlighted that both private and public sectors are optimistic about social value and the opportunities that it could provide for procurers, bidders and communities alike. However there are some challenges to overcome and good practice to build upon, as the following illustrate:

- **Lack of awareness of the Act and its purpose** - Nearly two thirds of private sector respondents had not heard of the Act, or were not sure what it was about. Awareness is greater in the public sector, although combined responses suggest that nearly 40% are either not aware or do not know enough about it.
- **Both public and private sectors agree on the opportunities to implement social value** – Over 75% of respondents think that the application of social value should not be limited by contract value or length and over 80% agree on the opportunities for local businesses and communities. However, there is less agreement within the private sector that this could protect jobs for local people.
- **Both public and private sectors will benefit by using social value considerations in a bidding process** – Over 90% of respondents agreed that social value is a way of making bidders be more explicit about their added value in proposals and these findings revealed 100% agreement from the private sector that social value helps them to ensure that their Corporate Social Responsibility practices are aligned with the design of services.
- **An overwhelming agreement on the need to focus on securing jobs, particularly for young people** – When asked to rate which top three activities could be supported as part of social value, the majority indicated creating local jobs and training opportunities for young people and adults. Securing contracts for local businesses - but not necessarily for social enterprises - was another priority identified.

- **Procurement and EU rules present the biggest challenge** – More than half of respondents believe that procurement teams are not geared up to evaluate wider social benefits and that EU rules will make it difficult to apply clauses in contracts. The second biggest challenge, according to the private sector, is that communities will be sceptical about getting involved.
- **It's early days and there is a need for more practice and knowledge** – 78% of respondents agreed that the Act will have a positive impact on local communities, and both the private and public sectors call for more support with implementation.

1.2 Recommendations

The litmus test as to whether public bodies are serious about extracting social value will depend on whether they are prepared to give social value and best value equal status in future procurement decisions.

- **Recommendation 1 – Raise awareness of the opportunity**
There needs to be more promotion and awareness of the Act particularly for the private sector so that they can 'get ahead of the game' and start thinking innovatively about embedding social value into service design.
- **Recommendation 2 – Be clear about the benefits of social value**
Creating an open dialogue between procurement and bidders is really important so that experiences can be shared and concerns raised. There is always a danger that a social value consideration in one local area might have a negative impact on another.
- **Recommendation 3 – Focus measurement on longer-term outcomes**
Bidders need freedom not prescription: developing high level outcome and impact frameworks brings consistency to procurement, but allows bidders to be flexible in their design of solutions.
- **Recommendation 4 – Keep options open**
Focus on both the primary and secondary benefits of addressing a particular need, for example, using job creation as a conduit to supporting local third sector providers. For longer contracts, it will be important to be flexible and allow businesses to shift and adapt to reflect changing circumstances.
- **Recommendation 5 – Put social value on equal terms with best value**
There needs to be a real push at both leadership and practitioner level to understand the long-term financial returns and savings of a social value consideration and help procurement determine the trade-off between short term gain on price and long term gain on impact.
- **Recommendation 6 – Provide support but avoid lots of tools and methods**
There is demand from both sectors to find out about practice and case studies to help drive changes in thinking. But the market will become saturated and confused if the desire to create lots of new tools and frameworks ignores existing practice and opportunities for knowledge exchange and learning.

2. Introduction

In advance of the implementation of the Public Services (Social Value) Act 2012 next year, Rocket Science has conducted market research to gain an understanding of both the challenges and opportunities for the public and private sectors. The Act, developed from a Private Members Bill by Chris White MP, sets out to strengthen opportunities for the social enterprise sector and place social value as a relevant and important consideration in the procurement and delivery of public services.

Rocket Science has extensive experience in maximising social benefit from the procurement of services by helping:

- public sector agencies to use their procurement to realise local employment and skills outcomes, and
- private sector businesses to articulate the ‘added value’ offer in their bids in order to ensure that decisions are not taken solely about price.

The new legislation provides a great opportunity for public bodies to make their money go further by securing longer term, tangible and much needed benefits for their targeted communities. It is our view that the Act will create a market niche that will enable service providers to use social value to articulate and deliver their Corporate Social Responsibility (CSR) commitments.

The research undertaken in June 2012 comprised a survey of economic development, procurement and business development leads, which received 62 responses, and a roundtable discussion with 25 representatives from the private and public sectors. Here we set out the context, findings and our recommendations, both for helping public bodies prepare for the Act and for the private sector to articulate their social value offer in bids, service propositions and delivery. This report is for information and discussion and does not constitute legal advice.

2.1 About the Act

There is a strong tradition of building community benefit into works contracts. There are also many examples of how local authorities have used procurement of works as a tool to secure targeted recruitment and training opportunities and targeted supply-chain opportunities. Birmingham City Council is an exemplar with its mandatory Procurement Policy for Jobs and Skills, as demonstrated in its outcomes on projects such as the new Birmingham Library and its school building and housing programmes.

Planning Authorities also have relevant experience from their use of Planning Agreements (Section 106 Agreements) to secure employment and skills outcomes from major private sector developments. These outcomes have not only been in the construction sector but also in retail, hospitality and facilities management. The London Borough of Newham is one of many using this approach, with targeted recruitment for jobs on the Olympic Park being a high-profile example.

The new Act applies to the procurement of all services by contracting authorities in England, as defined by The Public Contracts Regulations 2006, plus some in Wales.

It provides a power to include requirements that will generate economic, social or environmental well-being for communities in the operating area of the contracting authority, and imposes a duty to consider, at all stages of the commissioning and procurement process, how the proposed procurement could add to such well-being. The Act also applies to contracts relating to services and works, and services and goods, where the services element is the greater part of the overall contract.

Local Authorities have had these “well-being powers” for some years. They were recently extended by the Localism Act 2012, which includes within it the general power of competence, replacing the well-being powers in the Local Government Act (2000). The powers of other contracting authorities, however, have been less clear, but the Act has now made these explicit. This is significant since it allows contracting authorities to include and pay for social value requirements as a core part of what they are procuring and therefore give it some weight in the award of the contract.

The Act does not cover Scotland, although the Scottish Government has committed to build public benefit clauses into their Sustainable Procurement Bill.

The social value agenda has, to date, been driven by the social enterprise sector and it is hoped that this sector will benefit because of its expertise in delivering social value through service contracts. However, the Act does not specifically refer to the social enterprise sector and experience from works contracts is that private sector companies can also become adroit at delivering social value - perhaps based on their CSR experience - and indeed may set up not-for-profit trading arms to deliver this agenda.

Social value has not been defined in the Act, but Social Enterprise UK has developed the following useful definition:

“Social value” involves . . . looking at what the collective benefit to a community is when a public body chooses to award a contract. Social value asks the question: ‘If £1 is spent on the delivery of services, can that same £1 be used to also produce a wider benefit to the community?’

There is a key distinction between social value and CSR: social value is determined by the purchaser and CSR by the provider. The two are not mutually exclusive and there are considerable potential benefits for the provider to align its CSR with local circumstances and needs, without compromising corporate objectives.

There is an emerging debate on how social value can be measured, with two schools of thought. The first proposes the creation of a comprehensive, measure of social benefit, but will this be too inflexible to reflect local needs and nuances and too expensive and complex for service providers to implement? The second proposes the development of a menu of social value measures (e.g. for targeted recruitment, training, supply-chain opportunities, contributions to community activities, etc.) that purchasers can select as appropriate to the particular contract, but will this lead to a confusing proliferation of different measures and tools?

These challenges and opportunities framed the design of our research, the findings of which draw on feedback from nearly 100 practitioners in both the public and private sectors.

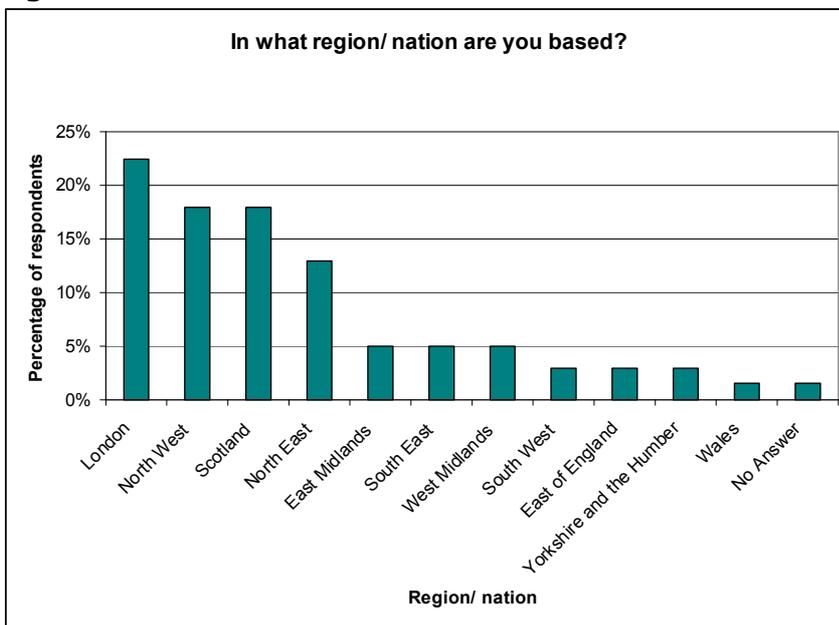
3. Research findings

The following findings paint a picture of the readiness of the public and private sectors to embrace social value. A survey conducted over three weeks in late May/early June 2012 was supplemented through consultation at a roundtable discussion on the 19th June in London.

3.1 Who responded?

A third of respondents were from the private sector, mainly working in business development functions.

Fig.1



Although the majority of respondents were from London, respondents were recorded from each of the English regions as well as from Wales and Scotland. The majority of public sector responses were from local authorities.

Comparing job roles, 77% of private sector respondents were in business development and CSR (Fig. 2) and 79% of public sector respondents were from economic/community development and procurement (Fig. 3)

Fig. 2

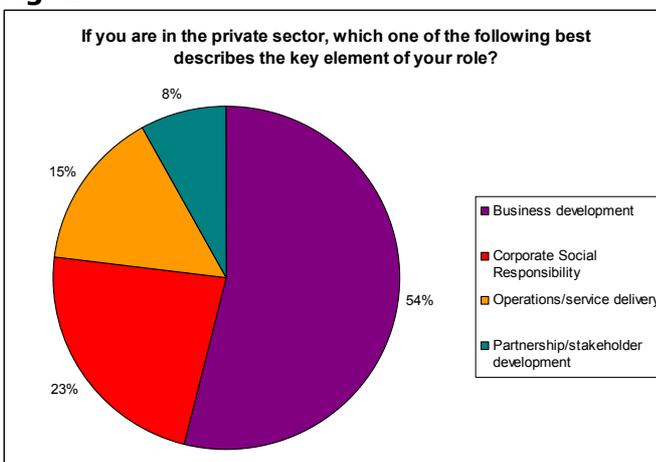
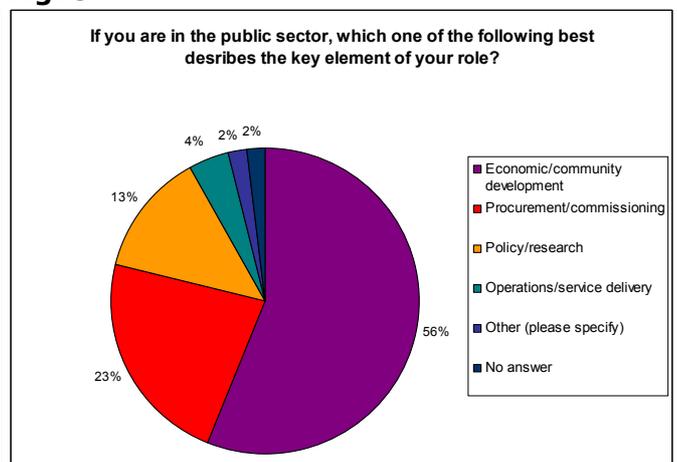


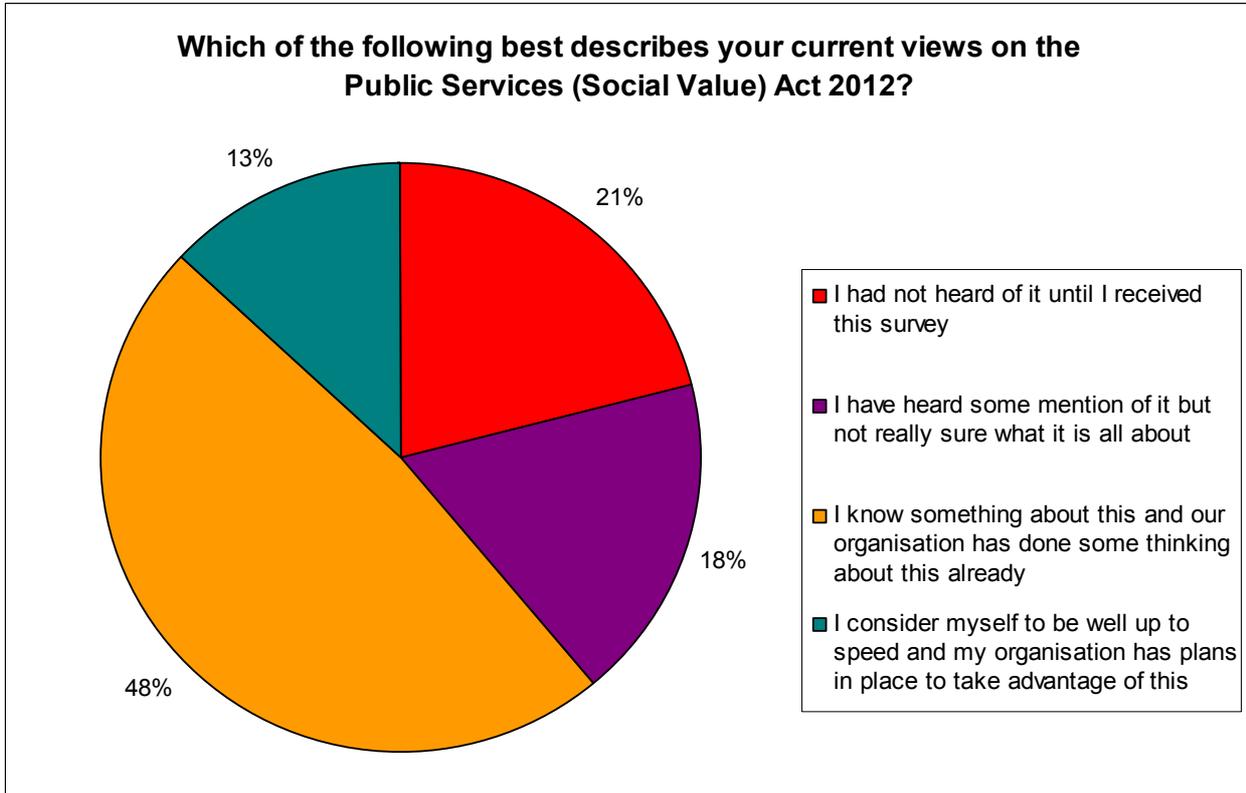
Fig. 3



3.2 What do respondents know about the Act?

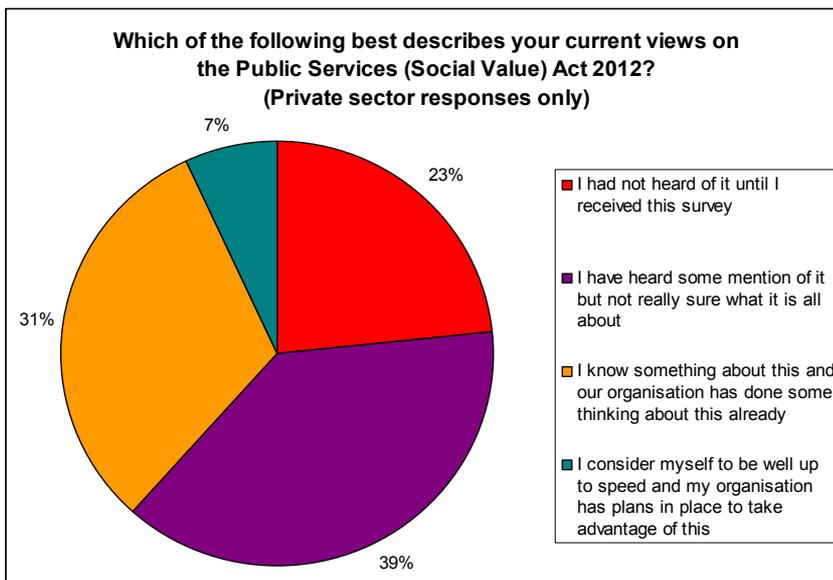
We asked respondents to indicate what they knew about the Act (Fig. 4). Nearly 50% said they new something about the Act, 21% had not heard of it until they received the survey, while 18% "had heard some mention of it but [were] not really sure what it is all about" and just 13% considered themselves "to be well up to speed and my organisation has plans in place to take advantage of this."

Fig. 4



However, knowledge of the Act was less common amongst private sector respondents, with nearly two thirds either not sure or having very limited knowledge about it (Fig. 5).

Fig. 5



Comparing responses between job roles, those working in procurement/ commissioning appeared to be better informed about the Act (82%) than those working in private sector business development (45%).

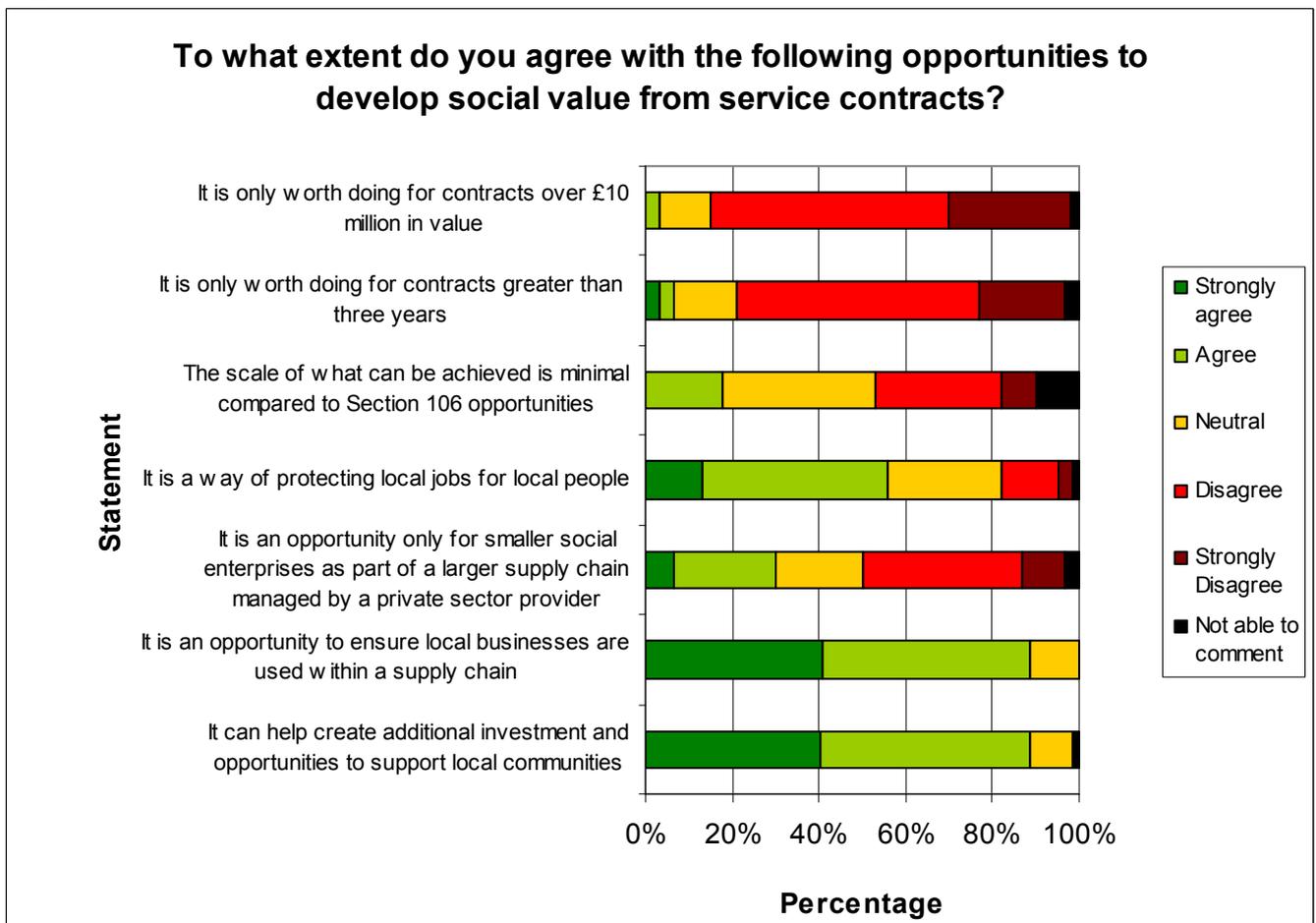
Recommendation 1 – Raise awareness of the opportunity

It is clear that there is awareness of the Act amongst the sectors, although this appears to be far lower in the private sector. The Act is due for implementation in January 2013 which leaves some lead-in time to promote awareness amongst both sectors. The challenge for the private sector is that it uses this opportunity to 'get ahead of the game' in terms of both readiness and innovatory thinking about how it can embed social value into service design.

3.3 What are the opportunities for social value?

We presented respondents with a series of statements that brought together the main opportunities that social value could mean to local areas. We asked them to indicate the extent to which they agreed with these statements (Figure 6):

Fig. 6



There is consensus that social value should apply to contracts of less than three years' duration and less than £10 million in value, as well as longer and larger contracts, suggesting that social value has a place in procurement regardless of the length the value of contract. Similarly, there is common agreement that social value presents an opportunity to make sure local businesses are included in the supply chain and for creating additional investment and opportunities to support communities. As one local authority respondent from economic/community development put it:

"Adding value is critical. We want to develop a co-operative approach which is about delivering not just on contractual outputs, but developing a dialogue on how the activity will lead to enhanced supply chain and/or employment outcomes. We have delivered successfully via our construction activities but are keen to see it through other areas of our procurement"

Comparing responses between the sectors shows some differences of opinion (Fig. 7 and 8).

Fig. 7

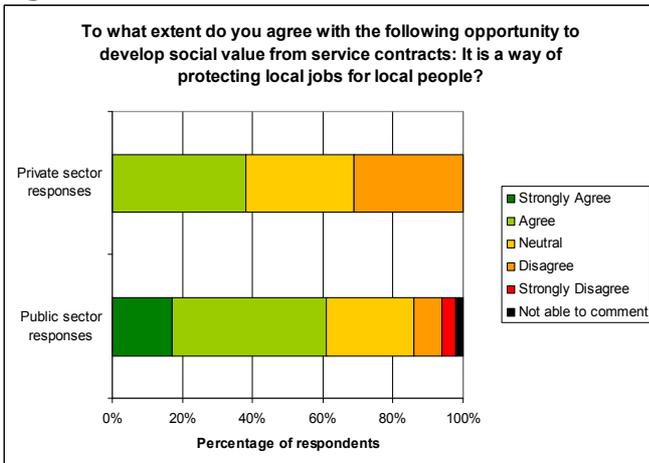
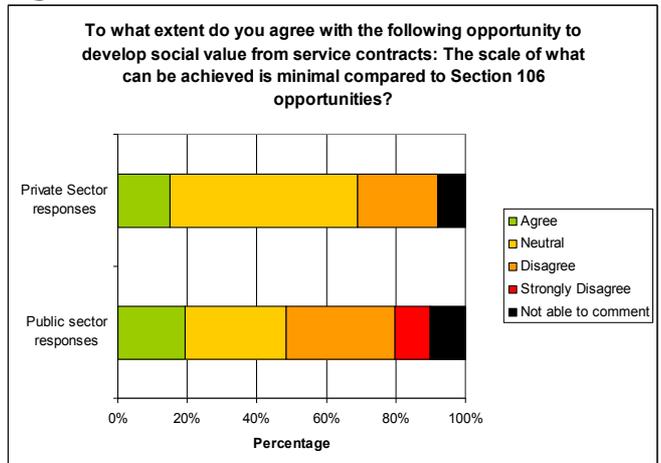


Fig. 8



There is less agreement among the private sector respondents that social value will protect jobs for local people. Understandably this is a big issue for local authorities, given the current economic climate and rising unemployment. The private sector seems less sure than their public counterparts about the opportunities presented by social value legislation when compared to local planning agreements (Section 106 provisions). This is interesting as Section 106 has provided the legal muscle for securing public benefit in local development to date and provides some of the experience for developing social value approaches. However there are challenges associated with applying local benefit in terms of employment opportunities, as one private sector respondent commented:

"There is also a major displacement issue, when a job finishes in Borough A, the contractor may have to let go the labour force in order to meet the local labour requirements in Borough B - as we are not in a climate of growth it is unlikely that the contractor can just keep adding and retaining labour, hence sustainable jobs are often sacrificed for the benefit of 'local' headlines".

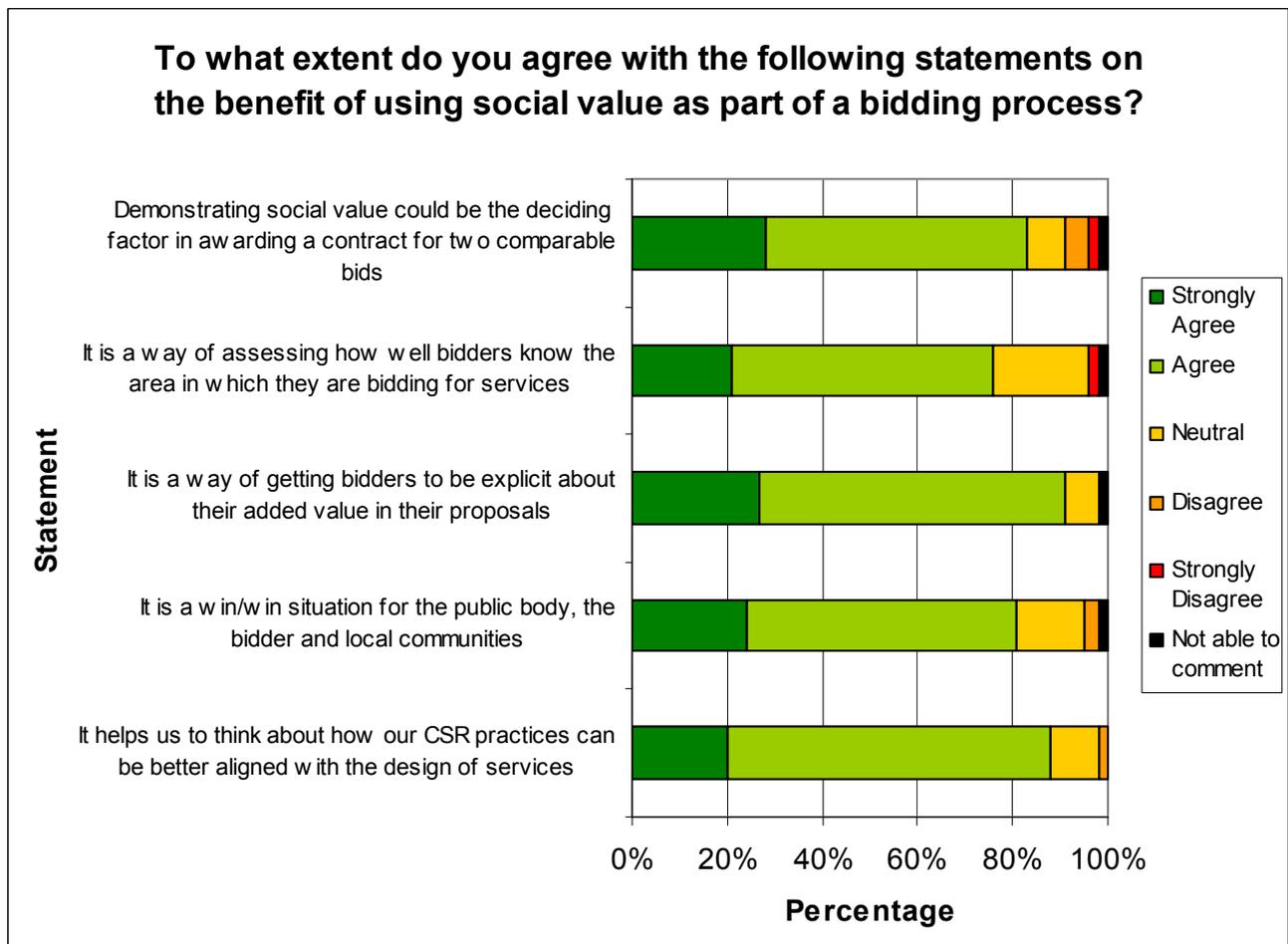
Recommendation 2 – Be clear about the benefits

The results of the survey show that there are common areas of agreement between both sectors about how social value could be achieved. In part this is about the public sector managing expectations about what can be achieved and the private sector being open to dialogue and able to share their experiences and concerns about the offer and the possible unintended consequences - particularly around sustainable job creation.

3.4 Using social value in a bidding process

We asked respondents the extent to which they agreed with statements on the opportunities for using social value within the bidding process:

Fig. 9



Comparing responses between the private and public sector shows considerable agreement about the opportunities for both procurer and bidder. Over 80% agreed or strongly agreed with four of the five statements. Amongst private sector respondents there was 100% unanimity in support of the view that this is an opportunity to ensure that CSR practices are better aligned with the design of services. However there are challenges in focusing on the longer term outcomes of an intervention or support as these will vary from contract to contract. As one public sector respondent said:

"The tenderer needs to demonstrate the added value that they can bring to the local community/economy - not just in terms of supply chain opportunities, jobs and training but also the quality of the opportunities that they will provide. Also how will they measure their social impact? The social requirements are likely to vary from contract to contract."

Recommendation 3 – Focus on longer term outcomes

Whilst it is tempting to prescribe in detail social value requirements in contracts, procurers need to find an alternative way of measuring the impact of interventions. Our consultation event highlighted that procurers need to allow for flexibility as too much prescription will possibly stifle creativity and innovation. We suggest that there is an opportunity here for procurers to design a high level outcome and impact framework to guide bidders in terms of where they focus their efforts that brings together common measurable objectives and needs for their communities, yet gives bidders sufficient freedom and flexibility to design the best solution for them.

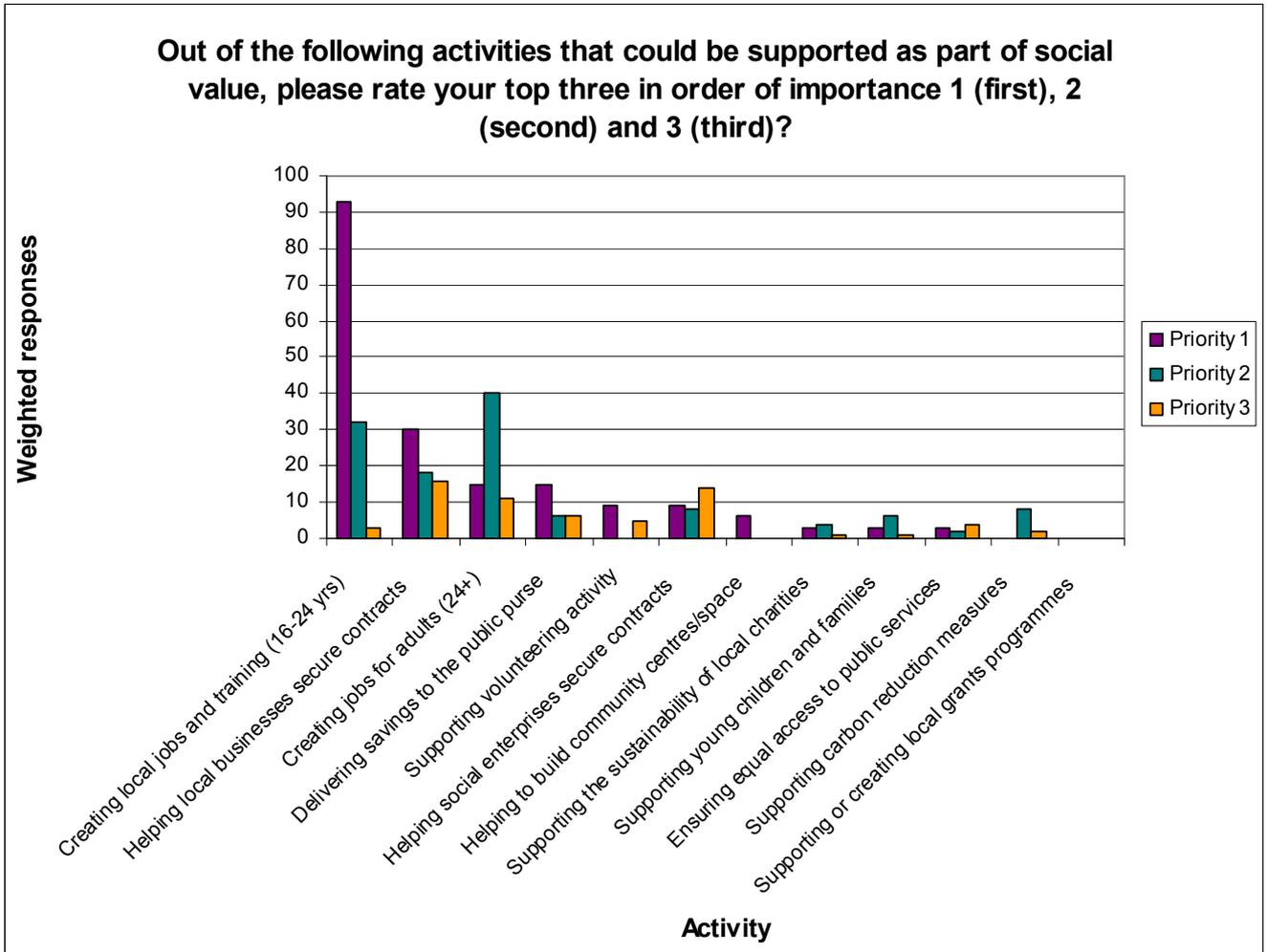
3.5 What should social value focus on?

Social value offers considerable opportunities for communities. We asked what both sectors thought the priorities for achieving social value need to be. Both focussed on the need to create local jobs and training, especially for young people. The public sector felt the need to focus on economic development outcomes and regeneration for the local community, as well as the need to support community resilience and sustainability. As one public sector respondent expressed it:

"We need to consider how the service contract is going to strengthen the local economy and the capacity of the local people. More often than not service contracts are outsourced to larger often cheaper companies who bypass the local economy and people. There needs to be a fundamental change to ensure that the 'public' money that is being spent benefits the 'public' in as many ways as possible"

We also asked respondents to prioritise three activities that should be supported through social value (Fig. 10). The top priority by far was to focus on providing local jobs and training for 16-24 year olds, followed by helping local businesses to secure contracts, and creating jobs for adults.

Fig. 10



It is not surprising given the profile of respondents, the current economic conditions and unemployment rate that job creation for young people was identified as the top priority. Something which is of potential concern is the lack of focus on helping social enterprises secure contracts, given the amount of energy the sector spent on lobbying for the Act. In reality whilst creating employment is the driver, there will be secondary benefits as suggested by a research/policy lead at a local authority:

"Primary driver should be job creation for local people; particularly Apprenticeships for 18-24 year olds so that training is included on the job. Supply chain benefits for local companies, and third sector organisations where appropriate and where they can demonstrate suitability should also be key considerations"

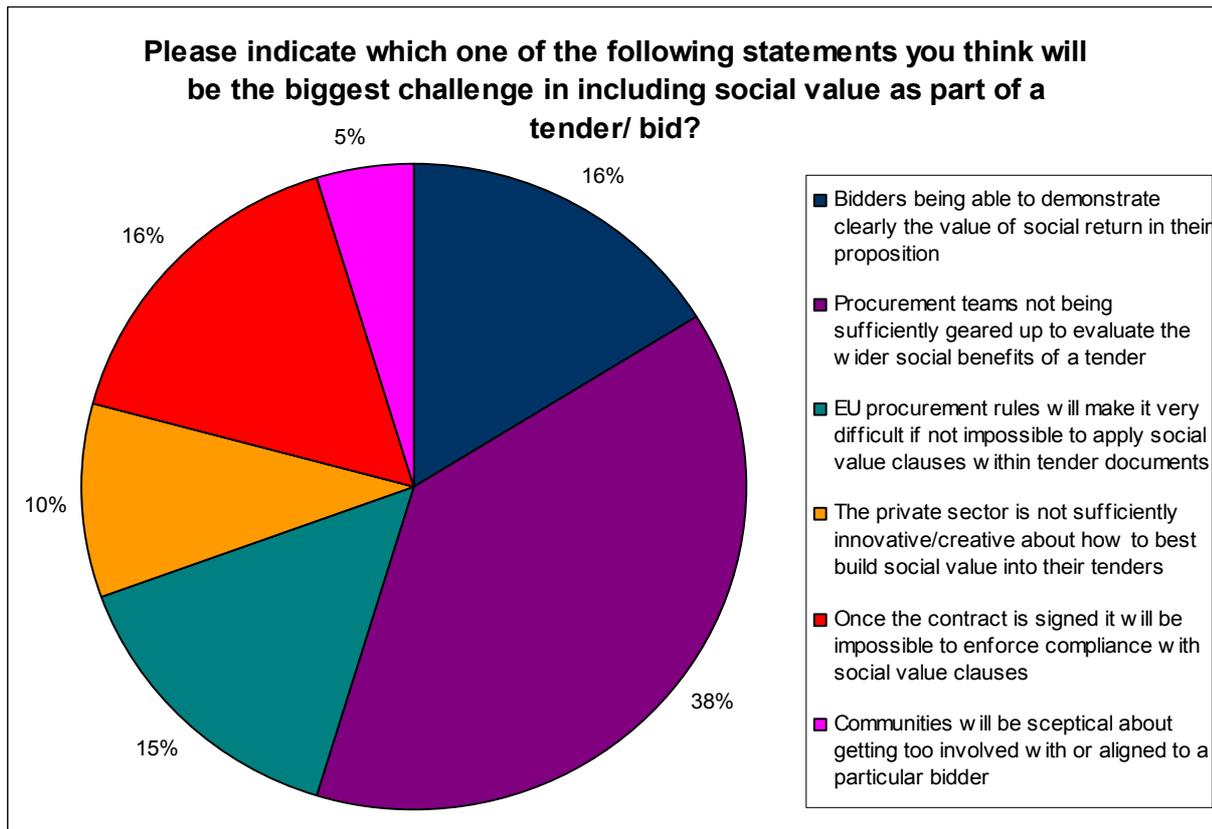
Recommendation 4 – Keep your options open

Our view is that whilst job creation is important and reflects the current climate, this could be too narrow in terms of delivering wider community benefits. Being able to wrap new ideas, interventions and support around a job creation offer that brings secondary benefits such as using local training providers or supporting communities through environmental improvement activities could be a way of addressing this. However where contracts are long, procurers need to be flexible in arrangements to enable businesses to shift their focus and adapt their interventions to reflect changing circumstances.

3.6 The challenges of including social value in a bid

Understanding some of the challenges of including social value in a bidding process is really important. We asked respondents to pick what they thought would be the greatest challenge:

Fig. 11



Nearly 4 in 10 respondents felt that the biggest challenge was procurement teams not being able to evaluate the wider social benefits of a tender. During the workshop discussion, there was a feeling that some form of quantifying of social value needed to be developed. However there are some real practical challenges of doing so, as a local authority stated:

"Best Value vs. Local - until the distance goods and services travel or local benefit is given a numerical value, it will be very hard for the public sector to satisfy the best value clauses in its procurement legislation. Until we can give local a value, the big boys will always have the economies of scale and do things cheaper!"

The greatest challenge facing all public agencies is how to achieve the balance around price versus quality. With the continued focus on cuts, efficiency and value for money, price considerations will tend to override any consideration of indirect benefits or savings and therefore make it difficult to assess social value contributions. However it is useful to refer to the DCLG statutory guidance on Best Value published in 2011, which highlighted 'the social responsibility deal' described by Eric Pickles to give support to local VCS and small business, in return for lack of prescription from Central Government.¹ On this particular issue a private sector respondent felt that having an accurate way of measuring social value could make it easier for small businesses to compete:

"Accuracy of how it is measured rather than the scale of the impact - thereby allowing smaller businesses and organisations the chance to compete"

Recommendation 5 – Putting social value on equal terms with best value

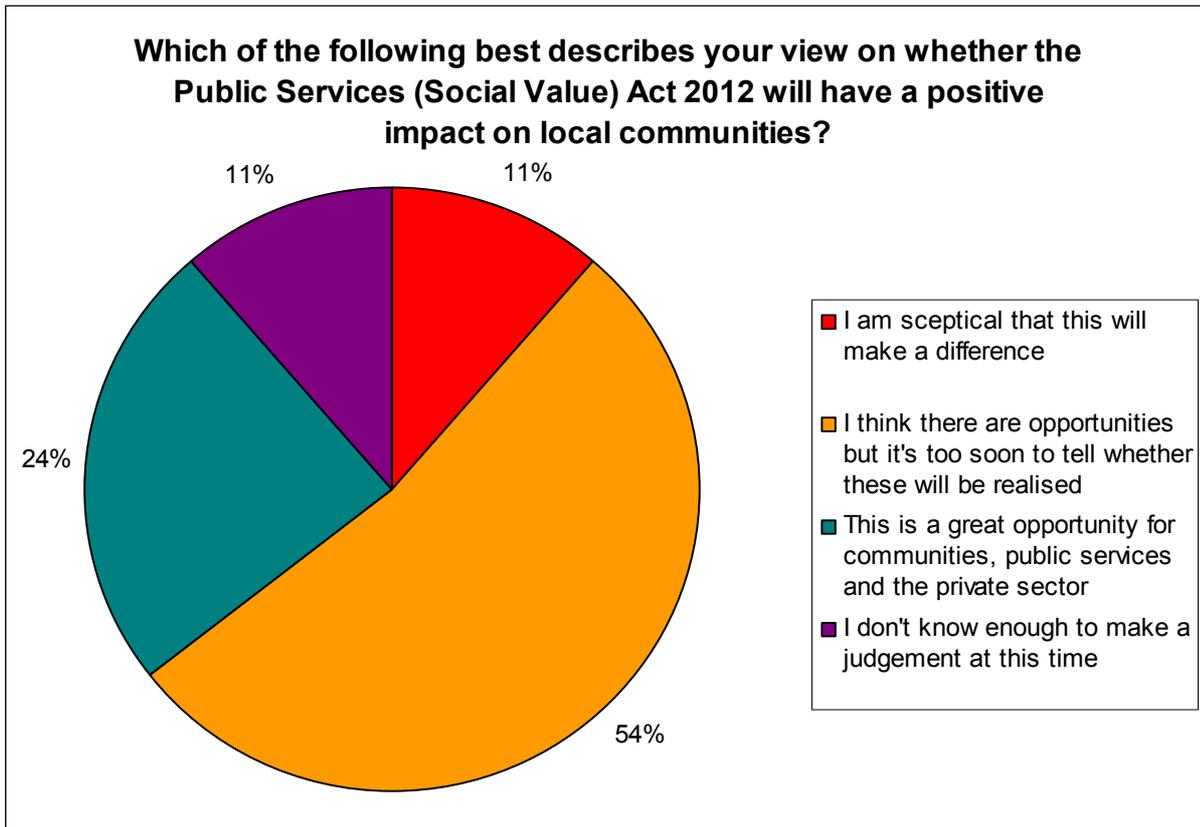
Our view is that there needs to be work done quickly by the public sector to help better express the potential long-term financial returns and savings of social value to enable better comparisons to be made at assessment stages. Leadership is critical in making the case that social value should also mean best value for both the public body and the community it serves. The danger is that social value considerations will be overshadowed by decisions made on price alone, significantly reducing the opportunity of making public spend and investment go further.

¹ See Department for Communities and Local Government (2011) Best Value Statutory Guidance, September 2011.

3.7 Looking to the future

Looking ahead, we asked respondents two things. Firstly, their thoughts on what they thought the benefits of social value would be to communities? Secondly, the kinds of information and support they would like in order to help them understand the application of social value better. More than half felt that there are potential benefits, but that it is too soon to tell what these will be and how forthcoming these will be. However, already almost 1 in 4 are confident that this is a great opportunity (Fig. 12).

Fig. 12



There is clearly optimism about the potential impact of social value as an agent of change in service delivery as a business development lead stated:

"Social value will in my opinion, if used correctly through time push the boundaries of service delivery and actually be able to finally create a level playing field"

In terms of what is needed to support implementation, many respondents suggested that clear statements and guidance would aid their understanding, for example, through briefings, workshops or seminars.

A number of other respondents also suggested that producing case studies and examples of best practice would help them to understand social value better.

The following illustrates the range of suggested ideas for support through a series of quotes:

"Some actual examples of where social value has successfully been used to award a contract not solely based on best value" (Local authority – economic/ community development)

Good case studies that demonstrate impact on local authority target areas e.g. youth unemployment, carbon reduction, health related worklessness" (Local authority – procurement/ commissioning)

"Practical examples of what has worked elsewhere - how EU procurement rules can be satisfied within the [social value] context, how can it be enforced and how local VCO's/ social enterprises can be geared up to benefit from opportunities" (Local authority – economic/ community development)

"Empirical measurement of a tangible, limited benefit delivered in addition to a service contract. My view is that the social benefit be prescribed and added to the service expectations of the contract with measurable standards. Too many woolly targets floating about and nobody follows up!" (Private Sector – partnership/stakeholder)

"We do a great deal of social impact assessment work as part of the planning process. The link between social value and social impact in terms of Environmental Impact Assessment processes needs to be developed a lot further by DCLG and others" (Private sector - operations/ service delivery)

"There needs to be a clear vision statement which outlines the regeneration or whatever the plans are for the local community and against this some clearly stated priorities which can be shaped into some sort of balanced score card. I think it's very, very challenging to articulate a value statement and to stack all the different statements together so that there is a balanced picture. There will be a high risk that bidders copy the last successful bid and you get lots of one sort of contribution. In my experience [local authorities] are poor at setting the scene for bidders. (Local authority – economic/ community development)

Recommendation 6 – Support, advice and collaboration

There is demand for support and advice from within both sectors, along with opportunities for learning and collaboration. Understanding what is currently available is a challenge as is access to the kinds of illustrative case studies and transformational practices that can help drive a change in thinking about price versus quality. It also seems clear that some form of standard measurement or approach is called for. We have made a suggestion for a high level outcomes and impact framework as an option, but we need to avoid the development of lots of new tools and methods so that the market does not become saturated and confused.

4. Conclusions

This research has highlighted that both private and public sectors are optimistic about social value and the opportunities that it could provide for procurers, bidders and communities. However there is a need to drive awareness within the private sector of the opportunities and for both private and public sectors to get ahead of implementation early next year.

The focus on job creation, particularly for young people seems to be an overriding concern and is likely to be a central component of social value requirements in the immediate future. The challenge will be how both public bodies and successful bidders reflect social value requirements for longer term contracts so that solutions keep pace with changing and emerging needs.

Whilst private and public sectors agree that social value provides benefits for the bidder and the public body, there are significant challenges in terms of how social value is assessed, the extent to which procurement teams are ready to implement this and whether social value and best value have equal status when awarding contracts in public bodies.

Our discussions with practitioners highlighted that the ability of the public body to work collaboratively with the successful bidder was critical to ensure the implementation and capture of social value post-contract. Much of this rests on the ambitions and capacity of individual organisations and how well contract managers are ‘wired in’ with economic and community development teams and how well bidders are connected with local brokers, such as Work Programme providers, colleges and support agencies, once the contract is signed.

Although this research has focused predominantly on local authorities, the legislation applies to all public bodies and, as such, a range of social value opportunities could be realised. It will be interesting to see how these bodies are responding to the legislation and their new powers and whether there are economies of scale from working collaboratively to bring maximum value to the communities they serve.

There are also opportunities for the private sector to use social value as a way of translating their corporate social responsibility objectives into local design and delivery. However it will be important that public bodies are not too prescriptive to the extent that they drive out creativity and innovation and make it difficult for businesses to apply corporate objectives within a local context.

It is clear that there is a high demand from both sectors for guidance, ideas, solutions and tools and the need to make these practical and relevant. There are lots of hearts and minds to change in procurement and finance, especially given the need to effect a trade-off between a short-term gain on price and a long-term gain on impact.

This research has reinforced our view that social value provides a great opportunity for public bodies to make their money go further by securing longer term, tangible and much needed benefits for their local area. The readiness, willingness and ambition of organisations from both sectors to embrace this legislation will determine how successful social value will be in addressing community needs and getting maximum value from future public spending.