

# **Taskforce on Social Value Procurement**

## **Report**

**A Taskforce commissioned by the  
Policy & Accountability Committees for  
Economic Regeneration, Housing & the Arts  
and for Finance & Delivery**

March 2015

## CONTENTS

1.	Executive summary.....	1
2.	Our aims .....	2
3.	Our approach.....	3
4.	The case for social value procurement .....	4
5.	Our findings and recommendations .....	10
	<i>Adopting a social value procurement policy</i> .....	10
	<i>Considering the local supply chain</i> .....	11
	<i>Building the local supply chain</i> .....	13
	<i>Implementing the policy</i> .....	15
6.	Conclusion .....	17
7.	Full list of recommendations .....	18

## APPENDICES

A.	Acknowledgments.....	21
----	----------------------	----

## 1. Executive summary

1.1 The new council administration elected in May 2014 made the following manifesto commitment: *“While still keeping costs down, council procurement will take a ‘community benefit’ approach that supports local jobs and businesses and develops young people’s skills through apprenticeships. At a first step, we will identify and remove barriers that small firms face in trying to win council contracts.”*

1.2 Following the election, therefore, the new Policy and Accountability Committees on Economic Regeneration, Housing and the Arts and on Finance and Delivery set up a joint Taskforce on Procurement and Social Value.

1.3 The London Borough of Hammersmith & Fulham (LBHF) will receive 57 per cent less central government funding by 2017 than it did in 2010. This underscores the need for the council to take a fresh look at how it can make every pound it spends go further.

1.4 “Social value” is the generally recognised shorthand for achieving extra community benefit through procurement. It is best defined by Social Enterprise UK as follows:

*“Social value is a way of thinking about how scarce resources are allocated and used. It involves looking beyond the price of each individual contract and 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?’”*

1.5 The Taskforce is particularly interested in how social value procurement can be used to produce greater benefit for small firms in Hammersmith & Fulham, whose survival and growth is a priority for the new administration. Besides the importance of supporting enterprise in and of itself, given that business rates now contribute more revenue than the council tax, helping local firms is essential in these austere times for maintaining local services and keeping council tax low.

1.6 Social value procurement is in line with government thinking. The Social Value Act 2012 requires those who commission or procure public services to consider securing added economic, social or environmental benefits for their local area. The Public Contracts Regulations 2015 state that contracting authorities may now use qualitative, environmental and/or social criteria as a measure of cost-effectiveness; and tenders may include economic, innovation-related, environmental, social or employment-related considerations.

- 1.7 A recent review by Lord Young says the Social Value Act is having a positive effect where it is being used. The Minister for Civil Society has said that the Act has the potential to thrive as a tool for the kind of smarter procurement that is becoming increasingly necessary.
- 1.8 LBHF does not currently have a policy on achieving social value through procurement. This Taskforce requests that the Cabinet adopt such a policy, based on the recommendations set out here.
- 1.9 In these difficult economic times, we believe that the priority of such a policy should be on enhancing the local economic value of the council's procurement spend by creating opportunities for local businesses and the third sector and for jobs and training.
- 1.10 Specifically, the council's procurement should aim to achieve the following:
  - More opportunities for local SMEs, micro-businesses and the third sector to become involved in the council supply chain through how the council commissions, procures and delivers goods, works and services
  - Market stimulation and capacity building for local SMEs, micro-businesses and the third sector to ensure they are better able to participate in the council's supply chain
  - More employment and training opportunities for local residents, especially young people and disabled and disadvantaged residents
  - Large contractors proposing and delivering clear community benefits.
- 1.11 Given this specific focus, it may be that another term than "social value", such as "local economic value" or "local growth" procurement, should be considered.
- 1.12 We recommend that the Taskforce play a role in refining this policy and monitoring its effective implementation.

## 2. Our aims

- 2.1. The Taskforce comprised Cllr Ben Coleman (Chair), Cllr Guy Vincent and Cllr Greg Smith.
- 2.2. As our first meeting, we set ourselves the aim of developing a strategic, "social value" policy for how LBHF spent its money to ensure that, while keeping down costs and working within UK and EU rules, greater value was derived for local residents and more of the economic benefits remained within

the local economy. This might include giving additional support to local small businesses or ensuring successful bidders undertook to provide benefits to the local community such as employment or training.

- 2.3. A related aim was to ensure that shared procurement with other boroughs delivered at least as much benefit for the borough as LBHF-only procurement.
- 2.4. The Taskforce agreed the following detailed objectives:
- i) To understand the council's current procurement strategy
  - ii) To understand the impact of "tri-borough" procurement on LBHF procurement
  - iii) To understand the economic and legal constraints on procurement, with clarification of what the council must do and what it can do
  - iv) To understand how much money the council spent on procurement activity and with whom
  - v) To consider the experiences of local businesses and third sector organisations when participating in a council procurement
  - vi) To look at what was being undertaken successfully elsewhere
  - vii) To propose ways in which procurement could be used to produce social value and community benefit
  - viii) To identify how the council could identify and support local businesses, third sector and other public sector organisations to build and improve the local supply chain
  - ix) To keep all procurement matters under review.

### 3. Our approach

- 3.1. The Taskforce's work was member led. We conducted our investigations by inviting a range of witnesses to engage in discussions:
- Officers from the council's Finance & Corporate Services, Transport & Technical Services, Children's Services and Environment, Leisure & Resident Services departments
  - Representatives from local businesses and third sector support organisations
  - Procurement officers from other local authorities.
- 3.2. We also received and considered a range of written documentation and research. See Appendix **Error! Reference source not found.** for details
- 3.3. The topics discussed at Taskforce meetings were as below.

*Meeting One*

- Introduction to how the council procures
- An overview of the council's existing approach to social value and responsible procurement
- The council's statutory duties
- Shared services and procurement involving three boroughs

*Meeting Two*

- The experiences of the local supply chain: a discussion with local businesses and business and third sector support organisations

*Meeting Three*

- Procurement and social value in other authorities: a discussion with colleagues from Croydon, Kirklees and Lambeth councils

*Meeting Four*

- Case studies – identifying social value opportunities in two future council contracts: the provision of school meals and the Janet Adegoke swimming pool and gym facilities at Phoenix High School.

- 3.4. While the Taskforce's work was underway, the issue of shared services procurement was covered extensively in the Critical Friends report undertaken by Lord Adonis<sup>1</sup>. The Taskforce noted the report's recommendations, especially those relating to good procurement practice and to visibility and sovereignty, and did not undertake a separate investigation.

## 4. The case for social value procurement

### The local economic case

- 4.1. In these austere times, the council needs to find new ways of backing local enterprise and employment in order to safeguard future business rates and council tax revenue (which will enable us to protect services and keep council tax low) and to stimulate spending in the local economy.
- 4.2. The Taskforce noted that in 2013/14 the council spent £306 million contracting with 3,427 different organisations for services, supplies and works. Of this, only £8.6 million or 2.8 per cent was spent contracting with SMEs based in the

---

<sup>1</sup> *Tri-borough Review: Critical Friends Board Report to the London Borough of Hammersmith & Fulham*, 29 October 2014

borough and just £2.1 million or 0.7 per cent was spent with micro-businesses in the borough.

4.3. The Taskforce heard that the council seeks to achieve best value only in terms of keeping costs down. There is no consideration of the additional community benefits that could arise from keeping more of the council's spend within the borough by taking a social value approach to procurement.

4.4. Social Enterprise UK defines social value as follows:

*“Social value is a way of thinking about how scarce resources are allocated and used. It involves looking beyond the price of each individual contract and 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?’”<sup>2</sup>*

4.5. The importance to the council of boosting local firms cannot be overstated. Business rates now contribute 20 per cent of the council's income once ringfenced grants are excluded. This exceeds the 18 per cent contribution made by council tax. Local companies and their employees also spend more of their income in the local area, benefitting other parts of the local economy through a ripple effect known as the economic multiplier.

4.6. Our research shows that this approach is supported by national and local government and by business organisations. Notably, the Public Services (Social Value) Act 2012 encourages councils to use of procurement for local economic, social and environmental ends:

*“The authority must consider (a) how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area, and (b) how, in conducting the process of procurement, it might act with a view to securing that improvement.”<sup>3</sup>*

(See also Note below).

---

<sup>2</sup> A Brief Guide to the Public Services (Social Value) Act 2012, Social Enterprise UK, February 2012. Social Enterprise UK is a national body representing businesses with a social or environmental mission.

<sup>3</sup> Public Services (Social Value) Act 2012, section 1 (3). Also as noted, under the recent Public Contracts Regulations 2015, contracting authorities may include economic, innovation-related, environmental, social or employment-related conditions in tenders and may use qualitative, environmental and/or social considerations in awarding contracts.

- 4.7. The Local Government Association views social value procurement as a way of maximising local economic growth by removing barriers to procurement for small firms and using procurement to increase jobs and training.

*“Councils need to maximise the economic, social and environmental benefits to communities from every pound that is spent, and we believe that spend with SMEs and VCSEs can make a very significant contribution to local economic growth. This includes Social Value Act duties. Councils can do more to remove barriers faced by SME’s and VCSEs bidding for council contracts such as by inclusion of economic, environmental and social value criteria in all contracts [and] improving access for SMEs and VCSEs.”*

*“Social Value can mean many different things, for example the inclusion of targeted recruitment and training opportunities in public contracts that can make a contribution to addressing the issue of poverty and reduced social mobility.... councils need to continue to make better use of their purchasing power to create opportunities; for jobs and training, for regeneration and to maximise value for money.”<sup>4</sup>*

- 4.8. The Federation of Small Businesses also favours social value procurement as a way of strategically supporting local growth, jobs and training.

*“There is also a need for council procurement strategies to recognise the important role of social value, bringing in wider considerations than cost. Procurement can provide councils with a secondary route to address worklessness, youth unemployment and skills development by giving potential suppliers the opportunity to demonstrate how they could contribute to these issues if awarded a contract.”<sup>5</sup>*

*“[L]ocal authority procurement in particular must be used strategically to deliver social and economic gains. More specifically, we believe that it must be used to support local growth and local jobs by using local businesses to keep more of local council’s money in local economies. In this way we can all benefit from the economic multiplier effects of this investment.”<sup>6</sup>*

---

<sup>4</sup> *National Procurement Strategy for Local Government in England 2014*, Local Government Association, July 2014.

<sup>5</sup> *Local Procurement: Making the Most of Small Business*, Federation of Small Businesses, 2012.

<sup>6</sup> *Local Procurement: Making the Most of Small Business, One Year On*, Federation of Small Businesses, June 2013.



## The legal case

4.9. The Taskforce heard that public sector procurement in England was governed by UK<sup>7</sup> and EU<sup>8</sup> rules. It noted that there could be considerable misunderstanding about the rules, which were often wrongly interpreted as precluding councils from taking a social value approach towards procurement. As the Joseph Rowntree Foundation says, it all depends how this is done:

*“UK and EU procurement frameworks support the inclusion of social/community benefits in public procurement provided this is done in a way that does not disadvantage non-local bidders. This can be accommodated in the drafting of the specification, typically by requiring the successful contractor to work with named local agencies that make the links to the targeted community.”<sup>9</sup>*

4.10. We also noted that new EU rules to be brought into force by member states by April 2016 will explicitly allow social criteria to be used in public procurements.<sup>10</sup>

4.11. We have already mentioned the Social Value Act. The Taskforce heard that the Act enables procurement for services – but not goods and works – to be used to achieve social, economic and environmental benefits within EU

---

<sup>7</sup> Alongside the Social Value Act referred to above, the Local Government Act 1999 requires local authorities to secure “continuous improvement”, and to obtain and demonstrate “Best Value” having regard to a combination of economy, efficiency and effectiveness.

<sup>8</sup> The EU Procurement Directive (Directive 2004/18/EC) and the Public Contracts Regulations 2006 (as amended), which translate the EU Directive into UK law, aim to ensure a level playing field within and across EU countries. Specifically, buyers must: not distort the competitive process; not discriminate against any organisation bidding, irrespective of their location or country of origin; be transparent, with clear and robust audit trails; be fair, giving all tenderers equal treatment and the same opportunities; and be objective in their shortlisting and contract award criteria. The EU revised the directive in 2014 and this has been codified in the UK in the new Public Contracts Regulations 2015.

<sup>9</sup> *Tackling Poverty Through Public Procurement*, Joseph Rowntree Foundation, April 2014

<sup>10</sup> Purchasers will be permitted to consider the process by which the goods, services and specific work they intend to purchase are produced. They will also be able to award a contract to a company that intends to employ the greatest number of disadvantaged people, such as the long-term unemployed; and they will be able consider employees’ specific working conditions, which may extend beyond legal requirements. From April 2016, there will also be a new, simplified EU regime for social, health, cultural and assimilated services, with a higher threshold of €750,000.

rules<sup>11</sup>. The Taskforce noted that Lord Young was reviewing the Act<sup>12</sup> (see also Note below).

- 4.12. We felt that the council should not wait for the Social Value Act to be extended but should seek to achieve social value now when procuring goods and works as well as services.
- 4.13. The Taskforce heard that councils across the country differed in how actively they sought to achieve social value through procurement and that the devolved governments in Scotland<sup>13</sup> and Wales had well-developed policies in this area.
- 4.14. Given the new LBHF administration's manifesto commitment to taking a "*community benefit*" approach to procurement, we were interested to note that in Wales, the government uses the term "*community benefits*" instead of "*social value*" in seeking to obtain maximum value from public sector spend for the citizens of Wales.
- 4.15. The Welsh community benefits programme aims to:
- Recruit and train economically inactive people;
  - Promote equality in the workplace;
  - Open up opportunities for small organisations in Wales, such as SMEs, third sector organisations and supported factories and businesses;
  - Ensure that disadvantaged groups are represented in the supply chain through working with these smaller organisations;
  - Make a positive impact on the environment; and

---

<sup>11</sup> The Public Services (Social Value) Act 2012 places specific duties upon public authorities when procuring services above the OJEU threshold to: have regard to the economic, social and environmental well-being of their area; consider how what is to be procured might improve the economic, social and environmental well-being of the relevant area; and consider how, in the procurement process, the authority might act with a view to securing that improvement.

<sup>12</sup> "SMEs" are small and medium-sized enterprises, and "VCSEs" are voluntary, community and social enterprises. The European Commission defines SMEs and micro-businesses as follows:

- Medium-sized business: fewer than 250 employees and a turnover of up to €50m or a balance sheet total of up to €43m
- Small business: fewer than 50 employees and a turnover or balance sheet total of up to €10m
- Micro-business: fewer than ten employees and a turnover or balance sheet total of up to €2m.

<sup>13</sup> The Procurement Reform (Scotland) Act 2014 requires a contracting authority to consider before starting a procurement competition how, by the way in which it conducts the procurement process, it might: improve the economic, social and environmental well-being of the authority's area; facilitate the involvement of small and medium enterprises, third sector bodies and supported businesses; and promote innovation.

- Contribute to the local community in terms of education, regeneration and community engagement.

**Note**

*Since the Taskforce concluded its evidence-taking, the Public Contracts Regulations 2015 have come into force and Lord Young has published his review of the Social Value Act.*

*Under the Public Contracts Regulations 2015, contracting authorities are now required to base the award of public contracts on the most economically advantageous tender using a cost-effectiveness approach, which may include the best price-quality ratio assessed on the basis of criteria such as qualitative, environmental and/or social aspects. Contracting authorities may also lay down special conditions, including economic, innovation-related, environmental, social or employment-related considerations.<sup>14</sup>*

*As regards the Social Value Act, Lord Young does not propose extending or strengthening this. The threshold for statutory consideration of social value will remain at £172,000. However, Lord Young says that more support needs to be provided to commissioners and procurers to help them use the Act better and to measure social value. He also notes that the Act is having a positive effect where it is being used.<sup>15</sup>*

*He adds, “Importantly, it should be emphasised that commissioners are already permitted to consider social value as widely as they wish and it is considered good practice to consider social value, where relevant, across goods and works and below the OJEU threshold.”*

*In a thank you letter to Lord Young, Bob Wilson MP, Minister for Civil Society, wrote: “Public services are changing and commissioners are facing some very real cost pressures. What is clear is that the Act has real potential to thrive in this environment, being used as a tool for the kind of smarter procurement that is becoming increasingly necessary for commissioners to navigate the challenges they are facing.”*

*Appendix **Error! Reference source not found.** of this report summarises where the Taskforce’s recommendations dovetail with the Public Contracts Regulations and the Social Value Act review.*

<sup>14</sup> Public Contracts Regulations 2015, clauses 67 and 70.

<sup>15</sup> *Social Value Act Review*, Cabinet Office, February 2015.

## 5. Our findings and recommendations

### Adopting a social value procurement policy

- 5.1. ***The Taskforce recommends that a social value procurement policy be approved by Cabinet.***
- 5.2. ***The council should use its expenditure more strategically by focusing not just on cost but on the wider economic multiplier benefits for the local community that can be realised when commissioning, procuring, assessing and delivering goods, works and services.***
- 5.3. ***Specifically, procurement should aim to achieve the following in Hammersmith & Fulham:***
  - ***More opportunities for local SMEs, micro-businesses and the third sector to become involved in the council supply chain through how the council commissions, procures and delivers goods, works and services***
  - ***Market stimulation and capacity building for local SMEs, micro-businesses and the third sector to ensure they are better able to participate in the council's supply chain***
  - ***More employment and training opportunities for local residents, especially young people***
  - ***More specific opportunities for disabled and disadvantaged residents***
  - ***Large contractors proposing and delivering clear community benefits.***
- 5.4. While the term “social value” can cover a wide range of community benefits, we suggest that, in these straitened times, the focus in Hammersmith & Fulham should principally be on the economic benefits, i.e. the benefits for local firms, jobs and training. Given this limitation, it may be that another term than “social value”, such as “local economic value” or “local growth” procurement, should be considered.

### Considering the local supply chain

- 5.5. When the Taskforce met with a number of local suppliers and businesses, it was apparent that the council's existing approach of consolidating multiple smaller contracts into large and sometimes sub-regional, longer-term contracts was precluding smaller, local firms from competing. Taskforce members are of the view that consolidating contracts has led to missed opportunities to support local businesses.
- 5.6. For example, Frost Meadowcroft, a local firm of property managers with a good understanding and knowledge of the local area and market, described for the Taskforce how it used to work with the council regularly to value buildings and conduct rent reviews. However, in 2013 the council decided to bundle all property services into a single contract. Having reviewed the extensive pre-qualification requirements, Frost Meadowcroft felt that putting together a tender would take over a week, and it could not afford to do this, particularly given the slim chance it felt it had of winning. The work is now being delivered by a large company based outside the borough.
- 5.7. Witnesses also highlighted that the departments of large contractors which serviced council contracts were actually often smaller than local firms, and as a result queries might be responded to more slowly and face-to-face meetings could be harder to hold.
- 5.8. As an example of the benefit of breaking up larger contracts, Kirklees council told us that it had traditionally let its window cleaning contract as a large, single contract. However, it had actively worked with local firms to understand what they could offer and had broken the contract down into a series of smaller lots. The service is now provided by a number of local companies at no extra cost to the council but at greater benefit to the local economy.
- 5.9. We heard that the new Public Contracts Regulations 2015 would require large contracts to be broken down into smaller lots by removing some PQQ16 requirements for contracts with an estimated value below the statutory thresholds<sup>17</sup>.

---

<sup>16</sup> The Pre-Qualification Questionnaire (PQQ) requires bidders to demonstrate a range of requirements before they are asked to submit detailed tenders: for example, that they are financially stable, have relevant policies such as health and safety and are organisationally robust.

<sup>17</sup> The thresholds are £172,514 for all supplies and most services, £625,000 (expected value) for "other services" such as health, social services and education, and £4,322,012 for works contracts. For contract values above the statutory thresholds, the government is proposing a statutory standard "core" PQQ for all public bodies.

- 5.10. ***Large procurements should be broken into smaller lots where possible to encourage local SME and third sector participation.***
- 5.11. ***The council should continue to review its own PQQ to make it simpler and less onerous for smaller firms and third sector organisations. The risk assurances sought by the council should be proportionate and relevant to the value and nature of the contract.***
- 5.12. Requirements such as turnover, relevant policy documents and workforce size need to be directly relevant and proportionate to the value and nature of the contract in order to remove barriers to participation by SMEs and the third sector. We heard that council is a good payer and so requiring a firm to have a large turnover may be less important.
- 5.13. ***For smaller contracts above £5,000 and below £25,000, the council should where possible invite three bids. While we recognise that some goods and services are not provided by businesses in LBHF, where possible two of the three bids should be invited from locally-based companies.***
- 5.14. ***To stimulate the market, potential local suppliers should be proactively identified.***
- 5.15. Economic Development, Learning & Skills officers could assist service departments in identifying local businesses who could be invited to bid. This could include creating and updating easily accessible local business directories.
- 5.16. While we believe every effort should be made to include local SMEs and third sector organisations in the council's supply chain (both as prime contractors and sub-contractors), we acknowledge that there will be times when there are no providers within the borough capable of meeting the council's needs. This may be because a service is quite niche or specialist, or because the value of a contract is so great the council needs a higher level of risk assurance from a provider. However, social value can still be delivered through such contracts.
- 5.17. ***The Taskforce recommends that all contracts with a value of £500,000 or above should require bidders to demonstrate how they will use the local supply chain, as well as provide any other community benefit.***
- 5.18. This might, for example, mean sub-contracting to local firms or providing mentoring to local SMEs. This requirement should be included as part of the contract award criteria and be given appropriate relative weighting in the criteria alongside any other proposals by the contractor to deliver wider

community benefits over the course of the contract. The Taskforce could review the value threshold over time to see how it is working.

- 5.19. *The council should also introduce payment clauses into all contracts to ensure prime contractors pass on no less favourable payment terms to their sub-contractors than they receive from the council. To ensure this happens, tenderers should demonstrate how they will allow the council to monitor how they pay their sub-contractors.***
- 5.20. *Similarly, all local development documents and policies (not least Section 106 agreements) should explicitly require developers and their Tier 1 contractors to seek local suppliers and engage with the local supply chain and to abide by the council's Local Procurement Code.***
- 5.21. This code is set out at Appendix **Error! Reference source not found.** It is currently in draft form and should be finalised in line with the council's social value policy.
- 5.22. Finally, if a company was ostensibly based in the borough but actually employed people elsewhere it would not be providing the social benefit that the council should be pursuing.
- 5.23. *Robust measures should be put in place to record the actual social value impact of individual procurements, including for lower value contracts that may not be monitored using current e-procurement systems.***

### **Building the local supply chain**

- 5.24. Throughout the Taskforce's investigation, members benefitted from the views and experience of the Chief Executive of the Desta Consortium. Desta is a social enterprise owned and run by its members that was set up to help the local voluntary sector compete for public sector contracts. The organisation currently delivers services for the Central London Clinical Commissioning Group (CCG). It is evidence that with the correct support and coordination, smaller local providers can successfully win and deliver important contracts.
- 5.25. The Taskforce noted how Croydon council invested time and resources into developing a relationship with the local supply chain. Croydon met with voluntary sector organisations to discuss its aims for procurement and sought to change the discourse around how procurement worked to make it more cooperative between the council and the voluntary sector.

- 5.26. Continuous dialogue with the sector was ensured by establishing a standing group of third sector representatives to monitor the procurement process. All of Croydon's existing and planned procurement policies and documentation were shared with the group and any unconscious barriers were identified and removed. For example, Croydon's officers worked with the group to simplify the PQQ, with officers being challenged to justify why criteria were necessary rather than using the whole PQQ as standard.
- 5.27. In all the instances of social value being achieved through procurement that the Taskforce encountered, the common theme was one of engagement and collaboration with the local business and the voluntary and community sectors.
- 5.28. *The Taskforce recommends that the council commit resources to working with local SMEs and the third sector both directly and through umbrella organisations in order to involve them in strategic, long-term planning to develop local supplier markets capable of meeting future council needs.***
- 5.29. *The creation of a board of local business and third sector representatives should be explored to facilitate ongoing dialogue between the local supply chain and the council.***
- 5.30. *To ensure that the social value procurement policy is driven from the top, a Cabinet member should have lead responsibility for social value procurement.***
- 5.31. All procurement policies, guidance and ways of working should be discussed with the board and the lead Cabinet member before being implemented to ensure all potential obstacles to sourcing services locally are identified and addressed.
- 5.32. *The council should also invest resources in building capacity in the local supply chain. This will include training in procurement processes and creating opportunities for local suppliers to sell to prime contractors.***
- 5.33. For example, we recommend that the learning from the Supply Cross River 2 (SXR2) programme be explored and that a similar programme be considered following the conclusion of SXR2 in April 2015.<sup>18</sup>

---

<sup>18</sup> Supply Cross River 2 (SXR2) seeks to ensure that local businesses across all sectors can exploit, and benefit from, business opportunities in central London, in particular those arising from large regeneration developments. It is open to SMEs and procurement professionals in the City of London



- 5.34. The Taskforce identified two contracts that the council was due to re-procure and assessed them as case studies to explore opportunities for maximising social value. In both instances it was apparent that officers were unsure of what social value was and that the council did not currently know enough about the local market. The case studies reaffirmed the Taskforce's view that a corporate training programme was necessary and that more work was needed to understand the local supply market and identify and/or develop potential local suppliers.
- 5.35. With regard to the proposed contract for the provision of school meals, officers described social value as being reflected in family-friendly employment terms, staff development, healthy eating and culturally sensitive diets. Members felt these were welcome examples of best practice but not social value requirements in that they did not achieve wider local economic benefits.
- 5.36. For example, the Taskforce suggested that a requirement for produce to be sourced locally (such as meat from local butchers) could be built into the school meals contract, assuming safety standards were met and consistency of supply assured. The council would then sound out the local market to identify suppliers and help them meet the required standards. This would deliver wider benefit from the contract to the local community.
- 5.37. *Prior to commencing a procurement, officers should conduct extensive market sounding to understand and develop the local market and build the capacity of potential suppliers. They should continually seek to update and extend their lists of local suppliers.***
- 5.38. Sounding out the market and signposting larger firms towards potential sub-contractors are an essential part of helping local firms to compete. It will be important that officers from Economic Development, Learning & Skills maintain, extend and continually update their local business directory of the local supply chain for use by commissioners and procurers. As this alone is unlikely to identify all potential suppliers, those conducting procurements may need to undertake further local research.

### **Implementing the policy**

- 5.39. The Taskforce noted that the council's existing procurement infrastructure – at corporate and departmental level – currently had no mechanisms to capture, measure or enhance any wider, non-financial benefits outside the scope of the

immediate contract. Examples of contracts that contained social value elements were largely the exception rather than the rule.

- 5.40. The Taskforce also felt that, where contracts contained social value elements – often under the heading of corporate social responsibility – management of such contracts needed to be more robust to ensure the commitments were actually implemented.
- 5.41. The Taskforce met with procurement officers from Croydon, Kirklees and Lambeth councils to hear about their experiences of seeking to achieve social value through procurement.
- 5.42. Each council has issued clear social value procurement policy statements and guidance developed by officers and councillors working together, and has taken steps to ensure this commitment is met by frontline officers.<sup>19</sup>
- 5.43. We heard that Lambeth had taken a range of measures to open up more opportunities for local firms to compete. Monthly training sessions have helped staff understand the council's aspirations and expectations. SMEs have received one-to-one mentoring to help them take advantage of the opportunities.
- 5.44. *To make the achievement of social value fundamental to how the council commissions and procures, a cross-departmental, ongoing training programme should be established for officers involved in procurement.***
- 5.45. Lambeth requires Cabinet Member approval before it tenders for contracts over £100,000 to ensure that all opportunities for wider community benefit are sought as part of the contract specification.
- 5.46. Many contracts are framed so as to encourage local firms to compete and deliver services. For example, Lambeth's £75 million Total Facilities Management contract included a requirement for the contractor to use local resources and develop the local supply chain, and Balfour Beatty is now delivering training and mentoring for local SMEs and its sub-contractors. The Taskforce felt that a similar approach should be taken in LBHF.

---

19

- Kirklees' social value policy background note and Cabinet report are at Appendix **Error! Reference source not found.** and its social value guidance is at [bit.ly/svpKirklees](http://bit.ly/svpKirklees).
- Lambeth's draft procurement social value checklist is at Appendix **Error! Reference source not found.** and its "responsible procurement" guide is at [bit.ly/svpLambeth](http://bit.ly/svpLambeth).
- Croydon's social value toolkit is at [bit.ly/svpCroydon](http://bit.ly/svpCroydon).

- 5.47. Prior to receiving authorisation to begin procurements of £100,000 or more, officers should satisfy a member-level check that sufficient opportunities for delivering social value have been identified. This should be made part of the basic business case.**
- 5.48. Every council is required to adopt Contract Standing Orders (CSOs) or something similar as part of its constitution. All procurement activity that is outside the remit of UK legislation is guided by the CSOs, which require that successful tenders should represent best value for the council and deliver desired service outcomes. The CSOs are part of the common law and once they are adopted it is a legal requirement for officers and Members to comply. This ensures all departments procure by the same rules. All councils have a duty regularly to review and, where appropriate, amend their CSOs.
- 5.49. The Taskforce recommends that the council's CSOs be revised to reflect the recommendations of this report.**
- 5.50. To accompany the revised CSOs, detailed training and guidance should be developed to ensure that all officers engaged in commissioning and procurement understand the importance of achieving social value outcomes and to help change the wider culture of the organisation.
- 5.51. The revised CSOs will also need to address share procurements with other boroughs.
- 5.52. In order to ensure the impact and effectiveness of the social value procurement policy over time, the Taskforce recommends that a monitoring and measurement methodology be developed.**
- 5.53. This will require efficient and consistent co-ordination between the council's policy functions (e.g. Procurement and Economic Development, Learning & Skills) and individual departments.
- 5.54. Finally, we recommend that the Taskforce have a role in refining and implementing this policy.**

## 6. Conclusion

- 6.1. Adopting the social value procurement policy set out in this report will ensure that local firms and residents derive greater benefits than now from the council's purchasing. While still keeping costs down, council procurement with thus achieve wider benefits for the local economy and our community as a whole.

- 6.2. To be effective, the adoption of a social value policy must be accompanied by the development of a council infrastructure that supports social value commissioning and procurement practices. Officer training will be needed to communicate the new focus, drive more active engagement with local suppliers (to identify and build a local market) and ensure more robust management of social value outcomes in contracts. Appropriate measurement will also need to be developed and undertaken to ensure that social value procurement is delivering the intended benefits.
- 6.3. At the core of this work is the need for greater collaboration between the council and the various players in our community, including local firms, third sector organisations, their representatives and other representative groups. Great coordination between council departments may also be required.
- 6.4. It is essential that implementation of social value procurement has Cabinet member commitment and oversight.

## 7. Full list of recommendations

### Adopting a social value procurement policy

- 7.1. The Taskforce recommends that a social value procurement policy be approved by Cabinet.
- 7.2. The council should use its expenditure more strategically by focusing not just on cost but on the wider economic multiplier benefits for the local community that can be realised when commissioning, procuring, assessing and delivering goods, works and services.
- 7.3. Specifically, procurement should aim to achieve the following in Hammersmith & Fulham:
  - More opportunities for local SMEs, micro-businesses and the third sector to become involved in the council supply chain through how the council commissions, procures and delivers goods, works and services
  - Market stimulation and capacity building for local SMEs, micro-businesses and the third sector to ensure they are better able to participate in the council's supply chain
  - More employment and training opportunities for local residents, especially young people
  - More specific opportunities for disabled and disadvantaged residents
  - Large contractors proposing and delivering clear community benefits.

### Considering the local supply chain

- 7.4. Large procurements should be broken into smaller lots where possible to encourage local SME and third sector participation.
- 7.5. The council should continue to review its own PQQ to make it simpler and less onerous for smaller firms and third sector organisations. The risk assurances sought by the council should be proportionate and relevant to the value and nature of the contract.
- 7.6. For smaller contracts above £5,000 and below £25,000, the council should where possible invite three bids. While we recognise that some goods and services are not provided by businesses in LBHF, where possible two of the three bids should be invited from locally-based companies.
- 7.7. To stimulate the market, potential local suppliers should be proactively identified.
- 7.8. All contracts with a value of £500,000 or above should require bidders to demonstrate how they will use the local supply chain, as well as provide any other community benefit.
- 7.9. The council should introduce payment clauses into all contracts to ensure prime contractors pass on no less favourable payment terms to their sub-contractors than they receive from the council. To ensure this happens, tenderers should demonstrate how they will allow the council to monitor how they pay their sub-contractors.
- 7.10. All local development documents and policies (not least Section 106 agreements) should explicitly require developers and their Tier 1 contractors to seek local suppliers and engage with the local supply chain and to abide by the council's Local Procurement Code.
- 7.11. Robust measures should be put in place to record the actual social value impact of individual procurements, including for lower value contracts that may not be monitored using current e-procurement systems.

### Building the local supply chain

- 7.12. The council should commit resources to working with local SMEs and the third sector both directly and through umbrella organisations in order to involve them in strategic, long-term planning and provide any training required to develop local supplier markets capable of meeting future council needs.

- 7.13. The creation of a board of local business and third sector representatives should be explored to facilitate ongoing dialogue between the local supply chain and the council.
- 7.14. To ensure that the social value procurement policy is driven from the top, a Cabinet member should have lead responsibility for social value procurement.
- 7.15. The council should invest resources in building capacity in the local supply chain. This will include training in procurement processes and creating opportunities for local suppliers to sell to prime contractors.
- 7.16. Prior to commencing a procurement, officers should conduct extensive market sounding to understand and develop the local market and build the capacity of potential suppliers. They should continually seek to update and extend their lists of local suppliers.

### **Implementing the policy**

- 7.17. To make the achievement of social value fundamental to how the council commissions and procures, a cross-departmental, ongoing training programme should be established for officers involved in procurement.
- 7.18. Prior to receiving authorisation to begin procurements of £100,000 or more, officers should satisfy a member-level check that sufficient opportunities for delivering social value have been identified. This should be made part of the basic business case.
- 7.19. The council's Contract Standing orders should be revised to reflect the recommendations of this report.
- 7.20. In order to ensure the impact and effectiveness of the social value procurement policy over time, a monitoring and measurement methodology should be developed.
- 7.21. The Taskforce should have a role in refining and implementing this policy.

## APPENDICES

### A. Acknowledgments

The Taskforce would like to thank the following individuals for assisting it in its investigations:

- Patricia Bench – HammersmithLondon BID
- Justin Clack – Frost Meadowcroft
- Ross Coathup – Chartered Practice Architects
- Jonathan Davis – Willmotts
- Stephen Francis – White City Enterprise
- Matt Hedges – Chartered Practice Architects
- John Heneghan – Kirklees Council
- Sarah Ireland – Croydon Council
- Paul Kelly – Federation of Small Businesses
- Shani Lee – Desta Consortium
- David McAlpine – MTW Consultants
- Stephen Regalado – Lambeth Council
- Siobhan Sollis – Kensington & Chelsea Social Council
- Genine Whitehorne – Croydon Council
- Varol Zafer – Willmots
- Numerous officers from departments across LBHF

The remaining appendices are listed below and are available on the Council's website at [www.tinyurl.com/juneerha](http://www.tinyurl.com/juneerha), or a hard copy can be provided upon request.

- Appendix B: Documentation reviewed
- Appendix C: Draft LBHF Local Procurement Code
- Appendix D: National Policy Developments
- Appendix E: Kirklees Council's social value policy background note and Cabinet report
- Appendix F: Lambeth Council's draft procurement social value checklist