

A BRIEF DELIBERATION OF THE MEANING AND APPLICATION OF SOCIAL VALUE IN UK LOCAL AUTHORITIES' PROCUREMENT PROCESSES

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Abstract

This article examines emerging practices promoted by the Public Service (Social Value) Act 2012 which aims to maximise the value of public agencies spend by asking for contractors to deliver social value (community benefits) as added value, over and beyond the core requirement of a procurement or commissioning exercise. It explores the political backing for seeking social value outcomes from public procurement activities and the main themes underpinning such an approach. In doing so, it argues that achieving social value through public procurement and commissioning activities requires multiple actors working jointly to create and deliver social value.

Rövid eszmefuttatás a társadalmi érték fontosságáról és alkalmazásáról az Egyesült Királyság helyi hatóságainak beszerzési folyamatainál

A tanulmány² a 2012-ben elfogadott társadalmi értéket hangsúlyozó, brit Közszolgálati Törvény feltörekvő gyakorlatait vizsgálja. A törvény célja az volt, hogy kötelezze az ügynökségeket, hogy a közbeszerzések elbírálásakor az ajánlatot adó vállalkozók ajánlatainak hozzáadott társadalmi értékét vizsgálja, ezáltal maximálja a beszerzések és üzemeltetések során elérhető társadalmi hasznot. Vizsgálja továbbá a társadalmi haszon eléréséhez szükséges politikai támogatás szerepét. Egyik fő állítása, hogy a társadalmi érték elérése a közbeszerzési és üzembe helyezési tevékenységek révén több olyan szereplőre van szükség, akik együtt dolgoznak a társadalmi érték létrehozásában és megvalósításában.

This paper provides a brief outline of the concept of social value and the emerging approaches adopted in the United Kingdom's (UK) Local Authorities' procurement processes. The legislative backing for this approach is the Public Services (Social Value) Act 2012 which places a duty on public agencies, to seek to deliver, through their procurement activities, outcomes which promotes the wellbeing improvements of those in the area served by the Local Authority.

Section 1 and 2 provides the background /context and the policy and political support for consideration of social value

outcomes in procurement. The definition of social value as a concept linked to public service delivery is briefly explored in section 3. Section 4 discusses the roles of the sectors in delivering social value and the emerging pillars or themes of a social value approach.

1. Background and context

With neo-liberalism philosophy flourishing in the 1990s, there was a resultant shift in focus toward delivering efficiency as a central theme of government (*Bovaird et al 2009*). In view of this, until recently, procurement practices in the UK have focused on delivering value for money that was measured through financial cost of the service, goods or works. Other benefits created alongside the financial objectives were not usually the targeted objectives of the exercise. However

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² A mű a KÖFOP-2.1.2-VEKOP-15-2016-00001 azonosítószámú, „A jó kormányzást megalapozó közszolgálat-fejlesztés” elnevezésű kiemelt projekt keretében működtetett Ludovika Kutatócsoport keretében, a Nemzeti Közszolgálati Egyetem felkérésére készült.

er, the decrease in public spending and growing demand for existing services, along with the changing nature of services required to meet community needs; taken together, is putting pressure on Local Authorities to be 'doing more with less'. In addition, the global financial crisis of 2007/8, has led to citizens expecting governments to do more to meet their economic, social and environmental needs (*Benington and Moore 2011*).

In the face of these challenges, there is a growing desire from both politicians and the tax payers to 'extract maximum value' from procurement spend. Effectively, the definition of value in procurement can no longer be about achieving financial value but include targeting wider benefits which contributes to the wellbeing improvements of individuals and communities from the same spend. *Erridge (2007)* echoes this point by linking the concept of 'public value' with procurement, emphasising the importance both of consultation to ensure that what is being delivered to citizens reflects public preferences, and of the need for providers to have the requisite experience in delivering those outcomes which contribute to the public realm. Given that public procurement operates within a regulated environment, to realise this objective would require adopting relevant policies which do not only seek to deliver regulatory and commercial goals, but also, greater value from every £1 spent in procurement. Similarly, it calls for adopting new practices which are based on a model that allows public agencies and communities to determine what are the outcomes which represents 'value', and incorporating them in the goals of the procurement exercise. Therefore, below I've examined briefly, the key policies and political backing which underpins social value approach in UK public procurement activities.

2. Policy and political backing for a social value approach

The desire by politicians and policy makers to use procurement (including commissioning) as a tool to deliver wider outcomes which are beneficial to the citizens, and their awareness of its advantages, is being recognised both by practitioners and also in the grey literature. In terms of national policies, the well-being powers of the Local Government Act 2000 empowered Local Authorities to draw up goals for their procurement activities which target the economic, social and environmental needs of the population that they serve. Later, the 'well-being powers' were replaced by the General Powers of Competence provided in the Localism Act 2011, which, gives powers to local authorities to do "anything that individuals generally may do" in pursuit of their core objectives which includes, the promotion of the economic, social and environmental wellbeing of the residents in their area. These powers also provide legislative basis for Local Authorities to innovate and do things differently without *ultra vires* concerns, except where, what is proposed to be delivered is specifically prohibited in legislation. In addition, Local Authorities must follow the advice issued in the revised Best Value Statutory Guidance (2015), which requires them to consider overall

value, i.e. economic, environmental and social value, when reviewing service provision. Similarly, the EU Commission has not only promoted the incorporation of socio-economic and environmental goals in procurement, but has also linked procurement goals with achieving societal value as outlined in the "Euro 2020" vision. The rules also allow public agencies to divide their requirements into lots so as to open up the opportunities to Small and Medium Enterprises, Voluntary and Community organisations, and Social Enterprise organisations. All of these policies support the use of procurement to deliver not only core requirement of the exercise but also to address societal needs. Furthermore, they demonstrate the political willingness to use public procurement to deliver outcomes which addresses societal needs. In the UK, this ambition of using procurement to deliver wider outcomes that are based on community needs was amplified in the Public Services (Social Value) Act 2012 which is discussed in detail in the paragraph below. It is worth mentioning that, Scotland and Wales have their own versions of the legislation and Northern Ireland is yet to bring any legislation out.

The Public Services (Social Value) Act 2012 is the main legislative tool that many Local Authorities are using to implement a social value approach. Initially, the Bill was aimed specifically at supporting Voluntary, Community, and Social Enterprise organisations, as well as, local Small and Medium Enterprise (SME) organisations, who are believed to deliver more social value (community benefits) through the work that they do, to gain more access to public contracts. However, the focus on these organisations to deliver social value was later taken out, thus, requiring public agencies to seek social value from contracts regardless of the type of organisation delivering the contract. The Act specifically requires public organisations in England and partly in Wales, to consider at the pre-procurement phase (Section 1[1]):

i). how what it proposes to buy might improve the economic, social and environmental well-being of the area where that public body exercises its functions; and

ii). how in conducting the procurement process, it might act with a view to securing that improvement.

This duty relates to Service contracts above the relevant EU financial thresholds identified in the Public Contract Regulations 2015 (i.e. the rules which transposed EU procurement directives into UK laws), whether they fall under Part A or B of the Regulations (part B is referred to as 'light touch' under the new regulations). Also, it applies to contracts with a Works/Supplies element where the cost of the Works/Supplies element is incidental, so that the contract would ordinarily be considered a Services contract under the Regulations. The duty does not apply to call-offs under framework agreements that existed at the date the Public Services (Social Value) Act 2012 came into force, nor does it apply where such considerations would be impractical in a genuinely urgent situation. And lastly, it places a duty on public agencies to consult on social value matters where this is needed. Crucially, the Act sought to change procurement practices by shifting the focus from price onto wider factors which contributes to the wellbeing improvements of individuals and communities of a local area when selecting a contractor.

When it comes to how the Act is being implemented in Local Authorities, it is driven either by Elected Member (Councilor) or senior public officials. In the case of the former, during local council elections, political parties included the realisation of social value outcomes through procurement activities in their manifestos. Where it is a political manifesto commitment, the push to ensure that a social value approach is implemented as part of the organisation's procurement goals, is from Elected Members down to bureaucrats or the public officials. While, in other Local Authorities, where it is Officers' led, senior officers use the Act to seek approval from Elected Members to implement social value approach. In both approaches, emerging practices show that the principles of the Act are adopted beyond the Services only contracts, to include all types of contracts (i.e. Works, Supplies and Services), as well as, contracts which are below the EU procurement financial thresholds. However, for the meaning of social value, the Public Services (Social Value) Act 2012 does not provide a definition. Rather, it only mentions economic, social and environmental value. It seems therefore that, public agencies are to define what outcomes they will consider to represent 'social value'. Since the implementation of the Act, some definitions have emerged in the grey literature, which are explored below.

3. Definition of Social Value and the link to outcomes in public service delivery

It is worth noting that the term social value is an old concept, which has been examined in various disciplines, therefore the meaning of the term explored in this paper is restricted only to its use within the context of the Public Services (Social Value) Act 2012 and the shift towards an outcome-based model for delivering public services. In this regard, *Mulgan* (2010), view social value as the product of the "dynamic interaction between supply and demand in the evolution of markets for social value". This view equates social value to productivity and ignores the dimension of social value being community led and for the benefit of the community and not, by government or a profit organisation for their benefit. Among the infrastructure organisations', social value is viewed as maximising public expenditure and creating impact by ensuring wider community needs are met through procurement exercises. In this regard, social value is about public agencies looking for 'what else' could be achieved for the wider community with the same spend. This view is underscored by Social Enterprise UK (SEUK) organisation, which states that 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?" Other definitions have been provided by those who want to measure social value mainly within the framework of Social Return On Investment (SROI). Such definitions have tended to highlight the financial value or impact created that needs to be established to help policy makers and funders decide which projects represent more value to the community and which ones provide less value. However, there is a danger for definitions of social value equated with measurement approaches to emphasis those elements which can be measured

while leaving out those aspects which are not measured. In addition, such definition has the tendency to not include the dimension of how social value is created or added.

Conversely, *Westall* (2009:8) states that social value concept relates to "specific outcomes which tend to focus on relieving disadvantage or on the results of local economic development. As such it suffers from being purely outcome-focused as well as only concerned with certain kinds of outcomes". Whereas *Westall's* definition conveys the notion of social value referring to certain outcomes and focusing on certain individuals or sections of society, *Emerson et al* (2001:1) see social value as a concept which relates to society as a whole, which implies that the outcomes associated with the concept are those which benefit society, and not just limited to individuals. They describe social value as that which is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals, or in society as a whole. This view, in some ways, represents the traditional welfare economics definition which links the concept of value with the notion of society rather than the individual. However, both definitions make interesting contributions in that they link the concept to outcomes relating to public service delivery.

Among the first to adopt a definition of social value which links to community benefits or outcomes achieved through commissioning (including procurement) activities is the North West National Health Service (NHS) who in a report produced based on a national Social Value Commissioning Project pilot, defined social value as: "additional benefit to the community from a commissioning / procurement process over and above the direct purchasing of goods, services and outcomes" (NHS/CPC Limited, 2010:5). This definition was echoed by *Chris White* (the MP who introduced the social value bill), who during one of his speeches, described social value "as a concept which seeks to maximise the additional benefit that can be created by procuring or commissioning goods and services, above and beyond the benefit of merely the goods and services themselves". Likewise, the revised Best Value Guidance issued by the former Conservative and Liberal Democrat coalition government in 2011, adopted a similar definition which states: "as a concept, social value is about seeking to maximise the additional benefit that can be created by procuring or commissioning goods and services, above and beyond the benefit of merely the goods and services themselves". All three definitions suggest that social value equates to 'community benefits or outcomes' which can be achieved through procurement activities as a 'secondary' outcome. Further, it conveys the notion of value adding.

Therefore, the term 'social value' as used within the context of the Public Services (Social Value) Act 2012, conveys the notion of delivering outcomes which promotes wellbeing improvements to individuals and 'community' through a procurement exercise. These outcomes are sought as 'additional or 'secondary benefit' (above and beyond core requirement of the contract) as a way of maximising the public spend. The added value or benefits can be economic value, social value or environmental value. It is worth noting that these definitions also convey the notion that social value can be created and delivered to the public realm as added value. The reference to 'secondary benefit', it should be noted, does not mean that

social value should be regarded as being less important, rather it is to convey the notion of maximising value by seeking to deliver extra benefits to the community, over and above those directly flowing from the works, goods or service procured, from the same procurement spend. In view of this, unlike the existing approaches or practices where contractors' offers are assessed based on price and quality criteria, the new approach promoted by the Act, suggest assessment of contractors should include what 'additional benefits' above price and quality criteria they can provide to communities through the contract, without increasing the cost or with just a small increase in cost being considered.

It is worth noting that the use of public procurement to deliver outcomes which address wider community needs and benefits is not new. *Mcrudden* (2004) argued that 'modern procurement systems evolved alongside the development of the welfare State, and that procurement was used in part to support the goals of the welfare state. There are other examples also provided in the literature, which show policies that enable social objectives such as fair labour conditions, regional development, justices and the provision of economic opportunities for disadvantaged groups etc to be applied in public procurement, (*Arrowsmith, Linarelli & Wallace, 2000; Mc-Crudden, 2007, Arrowsmith 2010*). However, public agencies alone cannot create social value, it is a joint activity involving businesses, voluntary and civil society. Hence, social outcomes cannot be achieved through the traditional models of procurement but through a new approach where consultation with key stakeholders forms a key activity of public officers.

4. The role of multiple actors in creating and delivering social value

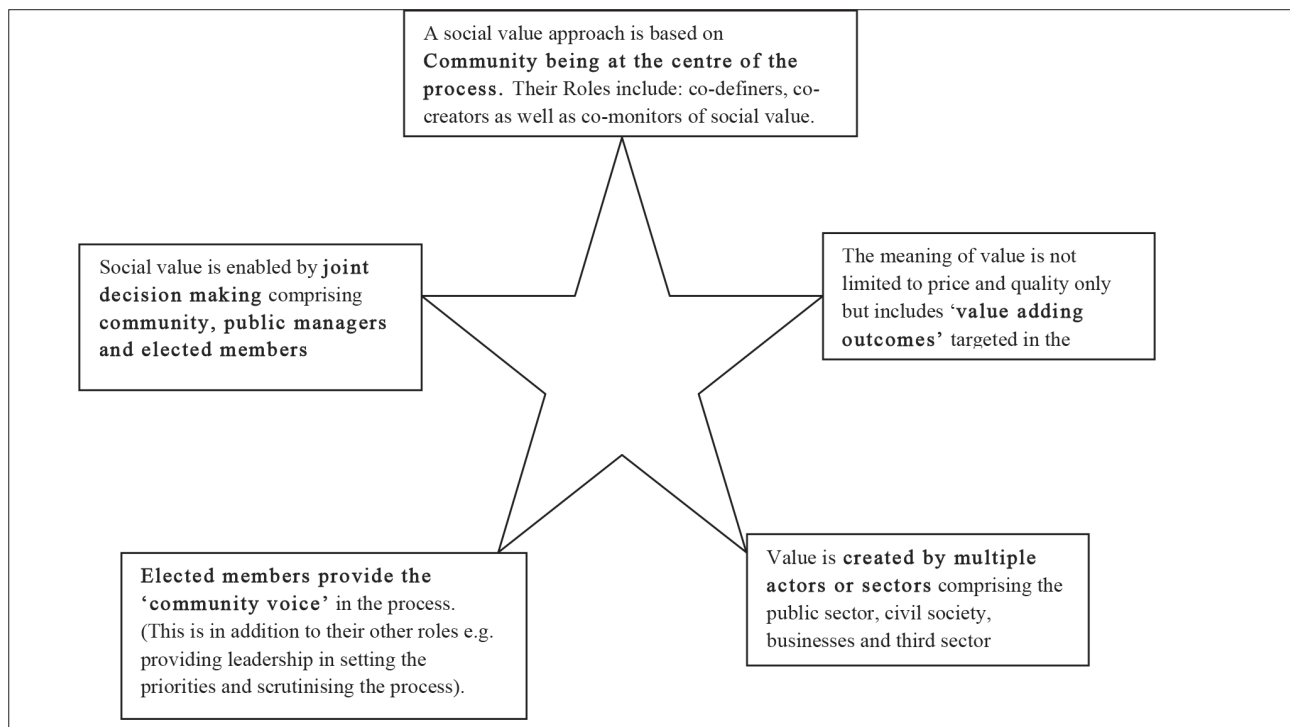
Traditional public administration and management theories tended to separate the roles of public officers, businesses and service users in public service delivery. These theories also presented public officials and businesses (i.e. providers) as those who create and delivers value while the communities (specifically, services users) as only consumers of services (*Bovaird 2007*). But communities or citizens do have resources that they can bring to help create value in the delivery of public services. Furthermore, adopting a monopolistic provision entirely through state agency or solely relying on the provider (contractor) alone to deliver outcomes which maximise the value of the spend is unfeasible given the seemingly expanding role of the government in meeting the social, economic and environmental needs of citizens. According to *Ramirez* (1999), value is not simply 'added,' but is mutually 'created' and 're-created' among actors with different values. Under the Public Services (Social Value) Act 2012, public agencies are required to consult with the relevant key stakeholders to identify the social value outcomes. This suggest that the outcomes which constitute social value has to be local. Social value outcomes have to represent what individual wants, needs and what they consider to represent 'worth' as well as the 'other needs' (which do not belong to individuals) but add value to the public realm, within the area served by the public agency.

Emerging practices show the community is not a bystander but contributors in defining social value. Further, they are co-creators and co-monitors in the delivery of the social value outcomes. Adopting this approach means 'joint ownership' of the outcomes delivered from procurement and commissioning exercises. Similarly, the voluntary sector has an input in that, it also has resources to help the public agency establish the local definitions of social value. In addition, they are potential delivery partners of social value – which is their core mission. For the private sector (businesses), they too, are delivery partners i.e. they are the ones who uses their wealth to support the delivery of specific community benefits such as taking on apprentices, offering training to targeted groups etc. Where they are not delivering social value in kind, they may contribute to a fund, which is use by the public agency to create and deliver social value to the community. All these examples go to show that achieving social value in public service delivery is a joint process, in which, all sectors – public, private, voluntary and civil society have a role to play.

Furthermore, the model of social value identified above also expands the role of Elected members in a local authority. In addition to their leadership and setting the policy agenda roles, they provide the 'community's voice' in a social value procurement process. In the latter role, the elected member can be the advocate of social value for the community they represent. Further, in fulfilling this role, they can help the organisation to focus its procurement processes on outcomes which represent real social value to the community. The participation of communities, voluntary sector and the public do not only ensure public agencies are using their procurement spend to deliver outcomes which are important to the individuals and communities but it also contribute to developing a healthy democracy. In particular, it encourages the devolving of decision making to local level. The diagrammed below summarise the emerging themes or pillars of the social value approach. It is worth noting that, all the five pillars or themes listed represent interlinked activities which enable social value to be achieved.

Conclusion

As Local Authorities continue to come under pressure to deliver more with less, they have to deliver outcomes which contribute to individual's wellbeing and also to the public sphere. A key factor to achieving this, is for public agencies to consult with communities and key stakeholders to establish which outcomes represent value and, use the finite resources it has, to target those outcomes through its procurement activities. Another factor is that, Local Authorities have to adopt approaches which tap into the resources of their communities, voluntary organisations and businesses to co-create, co-deliver and co-monitor social value benefits. In view of this, while traditional procurement practices have tended to emphasise price and quality, in which quality means meeting the users' requirements as key objectives, the introduction of Public Services (Social Value) Act 2012, challenged public agencies to re-frame procurement policies and prac-



tices to models which deliver wider benefits. These benefits are to be sought as 'added value', which means that they are additional to the core requirements of the exercise. This new approach expands the scope and meaning of *value for money* as a key objective of public procurement, to include, achieving the right price, quality and social value outcomes from the same procurement spend.

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