

## **SOCIAL CLAUSES AND VALUING SOCIAL IMPACTS**

### **INTRODUCTION**

1. In order to assist the Committee for the First Minister and deputy First Minister contribute to the Committee for Finance and Personal's inquiry into public procurement practice in Northern Ireland, a research paper which provided an overview of the use of social clauses was presented to the committee. This research paper highlighted two potential barriers to the use of such clauses:
  - a cultural challenge, requiring a change in approach from procurement professionals; and
  - a technical challenge presented by the difficulty of valuing important potential social impacts that do not have market values.
2. Committee members expressed an interest in further research which would identify approaches to overcoming the technical challenges and examples of successful use of social clauses. In particular, reference was made to the successful use of social clauses in a project undertaken in Stirling, Scotland and also in relation to the London Olympics 2012 was also mentioned.
3. This paper is broken down into two parts. Part 1 provides an overview of the development and use of the concept of Social Return on Investment (SROI). SROI is the most significant methodology developed to date to value social impacts of spending. The second part of the paper provides information on a number of examples of the use of social clauses, including the Raploch URC in Stirling and the London Olympics 2012. Whilst these examples are clearly of interest, they do not, however, involve the use of SROI. Indeed, the reality is that to date only a limited number of SROI analyses have been conducted in the UK or Ireland, and, furthermore, a smaller number still have involved SROI in a procurement process.

### **SOCIAL RETURN ON INVESTMENT**

4. Social return on Investment (SROI) is the most developed method for capturing the social value created by a project by translating the social benefits produced into financial measures. The concept originated in the

United States in the 1990s through the work of the Roberts Enterprise Development Fund [REDF], a non-profit social enterprise.

5. In 2005, the international SROI Network agreed a framework for the use of SROI and based on these standards, nef (the New Economics Foundation) published a guide for organisations and SROI practitioners in the UK, which set out a particular approach to carrying out SROI analysis.<sup>1</sup> The nef provides the following definition of SROI

SROI analysis is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by an organisation. nef's SROI framework is an approach to measurement – developed from cost-benefit analysis, social accounting and social auditing – which captures social value by translating social objectives into financial and non-financial measures.

SROI measures the value of the benefits relative to the costs of achieving those benefits. It is a ratio of the net present value of benefits to the net present value of the investment. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.<sup>2</sup>

6. The earlier research paper for the COFMDFM noted that, in relation to the technical difficulties presented by a need to measure social outcomes, the UK Government's social clauses project report stated that:

*One of the barriers to working with social clauses that was identified by the social clauses project survey was the difficulty in measuring outcomes and the costs associated with incorporating social objectives into procurements.*

*The first phase of the social clauses project identified this as a concern but was unable to take work forward on measurement processes during this stage of the project.*

*Future work by the Office of the Third Sector will include a project examining the potential use of social return on investment (SROI) and will be used to address the second objective from the social clauses project scope and specification which was to provide more clarity about the advantages and costs of addressing social issues in procurement.<sup>3</sup>*

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<sup>1</sup> <http://www.socialeconomyscotland.info/scvo/content/473.asp> (accessed 12/02/09)

<sup>2</sup> New economic foundation (2008) Measuring value: a guide to Social Return on Investment (SROI) Second edition (accessed 11/02/09)  
<http://www.neweconomics.org/gen/uploads/jkefez55axlzer31smpvcp4520062008134406.pdf>

<sup>3</sup> Cabinet Office and Office of the Third Sector (2008) Report of the Social Clauses Project  
<http://www.cabinetoffice.gov.uk/media/107238/social%20clauses%20report%20final.pdf>  
(p10) (accessed 11/02/09)

7. Whilst the SROI concept emerged from the 'third sector', there is growing interest in the concept within the government sector. The work of the UK's Office of the Third Sector, to which reference is made in the quotation above, is designed to bring together the public sector, independent investors and social enterprises to agree a standard methodology for SROI measurement that places a financial value on social benefit.<sup>4</sup> The Scottish Government has also had an involvement in this programme of work and the report of a pilot project looking at the development of SROI, which was joint funded by the European Union's EQUAL programme and the Scottish Government's Third Sector Division, was published in 2008.<sup>5</sup>
8. The pilot project in Scotland involved a range of partners testing the SROI methodology in what was described as a diverse set of organisations. The report concluded that '*...there is clear potential for, and indeed, something of an imperative to develop a consistent approach to measuring social impact achieved by social enterprises and other third sector organisations*' and adds that '*...SROI could form part of a long-term response to this challenge but we firmly believe that it needs much greater development before it can fulfill its potential*'. Important to such development, and identified as one of a number of 'top issues' by the SROI UK Network, is the need to '*Improve understanding of how SROI fits within existing government policy and legal framework (e.g. VFM)*'.
9. In spite of the significant development of the concept and methodology of SROI that has taken place, the reality appears to be that only a limited number of SROI analyses have to date been carried out with organisations in the UK or Ireland. And few of these appear to relate to the use of SROI in the procurement context. **nef**, however, has used the principles of SROI to inform the development of a sustainable commissioning model with the London Borough of Camden. This has been used to award a £2 million tender for mental health services. Making reference to this contract, a **nef** briefing entitled the '*Sustainable Commissioning Model*' noted that:

Based on **nef**'s framework, the winning tender was a consortium of three small to medium locally based providers. The consortium was not the cheapest in price but the tender's inclusion of social, economic and environmental objectives greatly added to the quality weighting the tender received. These included:

- Commitments to involve the wider community through the use of volunteers in the provision of Day Care

<sup>4</sup> Cabinet Office Press Release (6th May 2008) Plan for standard measure of social return on investment (accessed 15/01/09)  
[http://www.cabinetoffice.gov.uk/third\\_sector/news/news\\_stories/080506\\_standard\\_measure.a\\_spx](http://www.cabinetoffice.gov.uk/third_sector/news/news_stories/080506_standard_measure.a_spx)

<sup>5</sup> Investing in Impact: Developing Social Return on Investment (accessed 10/02/09)  
<http://www.socialeconomyscotland.info/scvo/content/pilot/443.asp> (accessed 10/02/09)

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- Service users would also be actively involved in the design, delivery and evaluation of services
  - Catering supplies would be locally sourced making sure more of the money spent stays local for longer.
  - Encourage recycling and cycling initiatives with service users and staff, contributing to Camden's environmental objectives.<sup>6</sup>
10. A local example of the use of SROI, though not in the context of procurement, is the work of the NOW organisation based in North & West Belfast. NOW describes itself as '*...the first in Ireland to take forward a programme of implementing SROI not just as a means of presenting the value of their outcomes in a written report but as a core activity that would be embedded in the monitoring of organisational processes*'.

### USE OF SOCIAL CLAUSES

11. This section of the paper looks at evidence of the range and use of social procurement available. The work of the European Union has categorised the range of "Socially Responsible Public Procurement" (SRPP) practices into 7 groups<sup>7</sup>. Table 1 illustrates examples within each of these groups.

**Table 1 Socially Responsible Public Procurement Practices**

Social Procurement Criteria	Description
Promoting "Employment Opportunities"	<ul style="list-style-type: none"> <li>• promotion of youth employment</li> <li>• promotion of employment of persons from disadvantaged groups</li> <li>• promotion of employment opportunities for the long-term unemployed</li> <li>• promotion of employment for old-age unemployed (older workers)</li> <li>• promotion of on the job skill development programs including for persons with disabilities</li> </ul>
"Decent Work": promotion of Labour Rights, Human Rights and Standards of Working Condition and Promotion of Equal Opportunities and Non-Discrimination	<ul style="list-style-type: none"> <li>• social security and benefits</li> <li>• working hours</li> <li>• sufficient and equal pay</li> <li>• occupational safety and health (OSH)</li> <li>• freedom of association</li> <li>• collective bargaining</li> <li>• gender (equal opportunities for women)</li> <li>• prohibition of child labour</li> <li>• elimination of forced labour</li> <li>• integration of migrant workers</li> <li>• access to vocational training</li> <li>• anti-discrimination based on disability, race, ethnic origin, age, sexual orientation or religion or ex-offenders</li> </ul>

<sup>6</sup> nef (June 2008) Sustainable Commissioning Model – briefing (accessed 12/02/09)  
[http://www.pluggingtheleaks.org/downloads/sustainable\\_commissioning\\_model\\_june08.pdf](http://www.pluggingtheleaks.org/downloads/sustainable_commissioning_model_june08.pdf)

<sup>7</sup> <http://ec.europa.eu/social/main.jsp?catId=331&langId=en> (accessed 12/02/09)

Supporting <i>Social Inclusion</i> and Promoting Social Economy Organizations	<ul style="list-style-type: none"> <li>• participation of firms owned by or employing persons from ethnic/minority groups</li> <li>• firms employing persons with disabilities above the percentage prescribed by national law</li> <li>• access to employment for persons with special needs to enhance their employability to secure Decent Work</li> <li>• access by cooperatives and non-profit organizations</li> </ul>
Promoting “SMEs”	<ul style="list-style-type: none"> <li>• provisions reducing the cost/burden of participating in SRPP opportunities</li> <li>• provisions enabling greater access by SMEs to public procurement opportunities through prescribed sub-contracting requirements</li> </ul>
Promoting “ <i>Accessibility and Design for All</i> ”	<ul style="list-style-type: none"> <li>• Mandatory provisions in technical specifications to ensure access by persons with disabilities to, e.g. public services, public buildings, public transport, IT applications.</li> <li>• The key issue is to buy goods and services that are accessible to all.</li> </ul>
Taking into account “ <i>Fair or Ethical Trade</i> ” issues	<ul style="list-style-type: none"> <li>• use of stipulations of these labels in tender specifications and conditions of contracts</li> </ul>
Seeking to achieve wider voluntary adherence to “ <i>Corporate Social Responsibility</i> ”	<ul style="list-style-type: none"> <li>• working with awarded contractors to enhance adherence to CSR values</li> </ul>

12. Only the largest of projects can include a wide range of these social impacts however all procurement exercises can strive to include some wider benefit. To illustrate the use of public procurement in the delivery of a range of sustainability issues, a number of case studies have been identified below. The vast scale of the 2012 Olympics in London provides an example of how a range of the issues, such as those outlined by the EU, can be delivered through a large process. The Example of Raploch in Stirling, Scotland gives an example of an effective use of how a relatively small project can make a social impact. The last example is an example of how a social clause in a procurement project has been used in Northern Ireland.

## EXAMPLES OF SOCIALLY RESPONSIBLE PUBLIC PROCUREMENT

### Case Study 1. The 2012 London Olympics

13. The Organising Committee for the 2012 Olympics have produced guidelines for what they expect of any firms hoping to win contracts for work in the run up to the 2012. The Committee have stated that suppliers bidding for contracts will be measured against a framework, which covers a raft of environmental, social and ethical issues.

14. The Olympic Delivery Authority (ODA)<sup>8</sup>, responsible for delivering the 2012 Olympics has, as it's mission statement to:

*deliver venues, facilities and infrastructure and transport on time and in a way that maximises the delivery of a sustainable legacy within the available budget.*<sup>9</sup>

15. As part of its procurement policy, the ODA developed an approach to procurement that “*balances cost, time and quality, as well as its corporate values and objectives*”. This approach which it calls “Balance Procurement” uses a set of weighted criteria to ensure that companies bidding for contracts can indicate how they will meet the ODA's corporate objectives. As well as including cost and time within the criteria the others are similar to the categories included in the EU's Socially Responsible Public Procurement guidelines are as follows:

**Safe and secure**

*Health and safety, design, behaviour and culture; security of operations.*

**Equalities and inclusion**

*Promoting equality and diversity; community engagement; inclusive design; supply chain management; employment, including skills, fair employment and wages.*

**Environment**

*Environmental responsibility including waste management and energy use; ethical sourcing.*

**Quality and functionality**

*Functionality; design impact; construction quality; promoting excellence and innovation.*

**Legacy**

*Financial viability and whole life cost; ownership and management structure; community and utilisation benefits<sup>10</sup>*

16. In November 2007 the ODA developed a Sustainability plan<sup>11</sup> in which it included the targets set for sustainable development and in December 2008 it published its progress report on the plan<sup>12</sup>. The report includes a number of references to its procurement policies including the success of the policy to ensure that people employed by contract companies in

<sup>8</sup> The Olympic Delivery Authority (ODA) is an Executive Non-Departmental Public Body accountable to the Secretary of State for Culture, Media and Sport. It was established as a statutory corporation by the London 2012 Olympic Games and Paralympic Games Act 2006 on 30 March 2006, and is the statutory Planning Authority for the Olympic Park area.

<sup>9</sup> P24 <http://www.london2012.com/documents/business/oda-procurement-policy.pdf>

<sup>10</sup> P6 <http://www.london2012.com/documents/business/oda-procurement-policy-executive-summary.pdf>

<sup>11</sup> <http://www.london2012.com/documents/locog-publications/london-2012-sustainability-plan.pdf>

<sup>12</sup> <http://www.london2012.com/documents/locog-publications/sustainability-plan-december-08.pdf>

London are employed above the London Living Wage which was being met for 95% of employees at the time of the progress report.

17. In addition, in February 2008, the ODA published its Employment and Skills strategy<sup>13</sup>, establishing how it would work with key stakeholders including the Community and Voluntary sectors in helping individuals develop their skills to get jobs working on the project.

## **Case Study 2. Raploch Urban Regeneration Company**

18. Raploch is an area of Stirling which was targeted as a deprived area and therefore in need of some specific intervention. In 2004 the upgrading of the roads and public walkway going through Raploch was agreed and a tender issued. The Raploch Urban Regeneration Company (URC) was set up as a not-for-profit limited company to implement the work. Its role was to engage with the community, co-ordinate priorities and spending in the area, secure funding, procure private sector partners and, where necessary, lead on the delivery of key projects.
19. To carry out the work the Raploch URC contracted SCRM (a division of Stirling Council) to carry out the road regeneration for an approximate cost of £1 million. As part of the contract, SCRM were required to take on a minimum of four long-term unemployed people, who would be given accredited training over a thirteen-week period, with the possibility of a job with SCRM at the end of that period. In addition to the requirement the SCRM voluntarily repeated this later in the contract with a further four trainees. In addition it was a requirement that the contractor would consult with the surrounding community before works began on the road.
20. This was a relatively small project but it was seen as a pilot for larger projects in the future which would include more items to the social clause namely; training provisions and a guaranteed number of jobs made available for school leavers and the long-term unemployed, as well as provisions in relation to small businesses and community enterprise.
21. The outcome was that from the initial group of four trainees, all were offered employment by SCRM at the end of their training, while one trainee from the second group of four was retained. Two further trainees from the second group secured employment with another contractor, meaning that seven out of the eight trainees secured full time employment in the sector.
22. From an evaluation of the project the following good practice issues were identified.

### ***Create the right environment for implementing the requirements***

*SCRM had no recommendations for improving on the way things were done in this contract – they felt that they were put in a very good position by*

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<sup>13</sup> <http://www.london2012.com/documents/oda-publications/oda-employment-and-skills-strategy-1-4.pdf>

*Raploch URC to implement the social requirements. The right encouragement and support appeared to be key to the success of these training provisions. As SCRM trained people on a regular basis, and much of the training was obtained from external sources, they were fortunate in that it was not necessary to obtain any new skills to respond to these requirements.*

**Keep it simple**

*One aspect of this contract that Raploch URC felt meant it was successful was that they were not excessively ambitious. They were aware of what was practically possible in the context of the size and type of contract they were procuring. However, if, as it turned out, they were capable of successfully doubling the outcomes, perhaps they were not sufficiently ambitious in terms of scale.*

**Be clear in what your requirements are**

*Appropriate support and monitoring are necessary to successful inclusion of this type of social requirement, and it is vital that the contracting authority has a clear idea of what they are aiming to achieve. Certainty of purpose is very important.*

**Make use of any partner organisations you may have to help to deliver the requirements**

*In this case funding was available from outside sources, without which it would have been far more difficult to achieve the desired goals, or perhaps to consider including such provisions at all.*

**Ensure that what you are asking for is actually achievable,**  
*and that goals are relevant to the area (e.g., only require contractors to employ long-term unemployed in areas where there is an ongoing problem with unemployment).<sup>14</sup>*

### **Case Study 3. The Northern Ireland Unemployment Pilot Scheme**

23. Socially responsible procurement has developed in Northern Ireland since the first programme for Government in 2001. Since then the Procurement Board and the Central Procurement Directorate have been established and a number of policy documents produced as considered in the first paper to the Committee. Much consideration has also been given to how to pilot socially responsible procurement practices. The pilot scheme that was developed was based centred on the single issue of unemployment, specifically to promote the employment of the “unemployed” in large construction contracts. The contracts were to include any contract worth over £3.86 million for construction and over £0.5 million for services. The term “unemployed” was defined as:

*any person resident in the EU or any other country covered by the WTO Government Procurement Agreement who was not in paid employment in the three months immediately prior to being employed on the contract.<sup>15</sup>*

<sup>14</sup> P13 <http://www.berr.gov.uk/files/file34322.pdf>

<sup>15</sup> *Social Considerations in Public Procurement, Annex I Legal and Policy Review of SRPP frameworks in selected EU Member States*, International Training Centre.

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24. Contractors wishing to be considered for a contract within the pilot were required to demonstrate their commitment to the scheme. Tender documentation required the contractor to provide an “unemployment utilisation plan” containing three broad elements:

*The first element required the firm to set out the firm’s general social policy in relation to the recruitment, training and retention of employees from the unemployed.*

*The second element in the unemployed utilisation plan involved the firm setting out a detailed project implementation plan, which would be specific to the contract.*

*The third element related to previous experience.<sup>16</sup>*

25. Failure by a tenderer to submit a plan resulted in the tender being declared void and excluded. To assess the plans a scoring matrix was set up weighting the three elements. After award of a contract the employers had to open themselves up to scrutiny by the contracting authority to ensure their compliance.
26. The pilot study was evaluated by the School of Policy Studies, University of Ulster and an internal assessment was carried out by the CPD. Both found that the benefit of the schemes outweighed the costs. In addition there was no legal challenge of the scheme by companies as had been expected by some and contractors were reported to have been satisfied with how the scheme operated.

**February 2009**

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<sup>16</sup> *Social Considerations in Public Procurement, Annex I Legal and Policy Review of SRPP frameworks in selected EU Member States*, International Training Centre.

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