



Report of Chief Officer Financial Services

Report to Corporate Governance and Audit Committee

Date: 22nd November 2019

Subject: Social Value in Procurement – Update on the Options Being Considered To Accurately Measure Social Value Outcomes

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Has consultation been carried out?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Will the decision be open for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary

Main issues

- Following the Executive Board of 26th June 2019, Procurement & Commercial Services (**PACS**) introduced the Council's 2019-2024 Procurement Strategy (the **Procurement Strategy**).
- The Procurement Strategy sets out 5 key areas for procurement, including regarding delivering social value beyond the core services being procured (and at no extra cost) and the Foundation Living Wage (**Social Value**).
- The Procurement Strategy also incorporates KPIs to measure performance in respect of each of those 5 key areas, however a number of these KPIs require further detail as to the precise targets and methodology for measuring performance.
- As such, PACS committed to Executive Board to report back to it (and to report to Corporate Governance & Audit and Scrutiny Board) regarding proposals for providing such further KPI detail.
- This report provides to the Committee an update as to progress towards identifying precise Social Value related KPI targets and methodologies for measuring the same.

Recommendations

Corporate Governance and Audit Committee is recommended to note the contents of this report.

1. Purpose of this report

- 1.1. To provide the Committee with an update as to progress towards identifying precise Social Value related KPI targets and methodologies for measuring the same.

2. Background information

Procurement Strategy KPIs

- 2.1. The Procurement Strategy identifies Social Value as a key area of procurement. The Procurement Strategy also identifies several KPIs for measuring performance against all 5 key areas of procurement.
- 2.2. While the measures for the majority of these KPIs are clear and identified in the Procurement Strategy, a number of the KPIs either require an initial baseline against which future progress may be measured or present particular complexities in order to provide a useful measure of success, and therefore required further consideration.
- 2.3. The key area of Social Value is particularly complicated to measure, given that the Social Value benefits that are sought are by nature largely indirect and may vary greatly from contract to contract.
- 2.4. Consequently, PACS committed to the Executive Board of 26th June 2019 that an annual report regarding procurement would be submitted to the Executive Board, and that after the Procurement Strategy had been operational for a year, further baseline figures and detail would be introduced into the KPIs in order to monitor performance.

Social Value

- 2.5. The Social Value Act places statutory responsibilities on public sector bodies to consider social value around procurement. As a minimum, public sector bodies have to consider the wider benefits of 'Social Value' during the purchase of services where the contract value exceeds £181,302.
- 2.6. By formally and consistently considering social value in each of the Council's procurement decisions, a major contribution can be made to achieving the maximum value from every pound that the Council spends and to the Council's ambition of a Strong Economy in a Compassionate City. Social value also supports the Council's wider aspirations for inclusive growth in conjunction with local communities and businesses.
- 2.7. To this end, the following are examples of where we have already undertaken a significant amount of work to ensure Social Value is achieved through the procurement process:
 - 2.7.1. **Social Value opportunities considered for ALL procurements:** The Council is currently finalising Social Value guidance for commissioners which will require that the potential to deliver Social Value is considered in all our contracts, and in particular in respect of:
 - 2.7.1.1. employment and skills,
 - 2.7.1.2. the environment (and climate change),
 - 2.7.1.3. education, and

2.7.1.4. asking suppliers to consider for themselves what else they can do to be “social entrepreneurs” in Leeds.

Furthermore, for all contracts valued above £50,000, the guidance will encourage commissioners to evaluate any Social Value commitments as part of the tender process (suggesting at least a 10% weighting);

2.7.2. **Stimulating the local economy:** Supporting the local economy by ensuring tendering opportunities are made more attractive to local, small and medium sized enterprises and voluntary, community and faith organisations by adapting tenders to their needs, where appropriate, particularly by dividing more opportunities up into smaller “Lots” which local organisations can bid for either individually or as part of a consortium;

2.7.3. **Supporting local firms:** Providing support to local small and medium sized enterprises and voluntary, community and faith organisations, by including local supply chain targets in contracts and supporting development/mentoring of local organisations;

2.7.4. **Improving skills:** Creating opportunities for disadvantaged workgroups by requiring our contractors to provide work experience and training opportunities to raise employees’ skills through on the job training and access to professional development as befits their role to improve quality and contract outcomes;

2.7.5. **Creating and preserving job opportunities:** Continuing to create sustained local job opportunities. The latest available figures show we have created over 2,300 new apprentice and employment positions for local people in Leeds;

2.7.6. **Promoting better employment standards:** The Council is committed to playing an active role in promoting decent work standards for its own employees and those of its contractors. The Council uses its procurements to ensure that its contractors promote labour rights by including contractual provisions relating to (amongst other things) anti-slavery and human trafficking, discrimination, human rights, safeguarding, training of staff, and health and safety;

2.7.7. **Promoting the Real living wage:** The Council is committed to promoting the Real Living Wage across the city by using its influence with businesses in the city to promote this initiative. Procurements explicitly encourage businesses to pay the Real Living Wage to all their employees as a minimum by providing that a tenderer who pays the Real Living Wage will win a procurement against a non-Real Living Wage tenderer if all other aspects of the evaluation are equal. Further discussions are ongoing with the Rowntree Foundation to consider what other steps may be taken to promote the Real Living Wage through procurement activity.

3. Main issues – Monitoring and measuring Social Value in the Council’s Procurements

3.1. The current situation with regard to measuring Social Value is that it is a component of the service being delivered and as such it is a matter for commissioning staff within Directorates, via their contract management processes, to ensure that any Social Value outcomes are realised and reported to PACS so that PACS may, in turn, report them to this committee, to Scrutiny and to Executive Board. The challenge going forward is to ensure that the Social Value outcomes

are monitored and reported in a consistent and understandable way across the whole Council. The following options for monitoring and measuring Social Value are currently under consideration.

OPTION 1 – Do-minimum

3.2. The Council currently identifies, records and reports annually to this Committee and Scrutiny on several elements of Social Value in procurement, such as the value of spend with SMEs and Leeds businesses. In addition, there are other high-level data relating to Social Value in procurement that the Council is able to identify, record and report on annually in relation to future procurement such as:

3.2.1. number of “foundation living wage” contractors;

3.2.2. number of contractors paying above the minimum wage;

3.2.3. number of contracts broken into lots to support SME opportunities;

3.2.4. numbers of contracts that have considered Social Value opportunities, and numbers of contracts containing Social Value commitments; and

3.2.5. number of SMEs that PACS and commissioners have engaged with, with a view to facilitating their ability to tender for Council procurements.

3.3. This level of report would have minimal further resource implications for the Council.

OPTION 2 – External Digital Social Value Toolkit

3.4. However, the Social Value that may be achieved through the Council’s contracts is anticipated to go beyond the high-level data referred to in the “do-minimum” option. Identifying it, recording it and reporting on it for each of the Council’s 934 contracts will be complex and very resource intensive.

3.5. PACS has therefore conducted considerable research and identified two market leaders in social value measurement and reporting tools (**Digital Social Value Toolkits**), both of which it is currently assessing with the support of key commissioning groups.

These are:

(i) The **Social Value Portal (SVP)** a commercial venture by the B2B eCommerce company; and

(ii) The **Social Value Engine (SVE)** created and developed by a partnership between Rose Regeneration and the East Riding of Yorkshire Council.

3.6. At a minimum, both tools allow reporting of social value commitments and performance against a series of Themes, Outcomes and Measures (**TOMs**) constructed on the principles of cost benefit analysis and “Social Return On Investment”.

3.7. The aim of the TOMs is to provide a minimum reporting standard for measuring social value. It is anticipated that a Digital Social Value Toolkit will allow the Council to better manage Social Value through the procurement tender process, to manage the delivery of Social Value in its contracts more effectively and consistently, and to have clear data to analyse and report on.

- 3.8. A Digital Social Value Toolkit will therefore assist the Council in unlocking social value in the supply chain and will enhance the Council's existing in-house Social Value Framework.
- 3.9. The two Digital Social Value Toolkits that the Council are assessing/reviewing (SVE and SVP):
- 3.9.1. use different data based assessments. SVE seeks to apply a financial benefit to Social Value outcomes, while SVP more directly reports on the delivery of outputs committed to by the contractor;
 - 3.9.2. require different levels of resource commitment from the Council. SVE requires Council officers to complete over 150 data-sets to facilitate a report of wider financial benefits. SVP provides resource to liaise directly with contractors to understand, record and monitor their social value commitments; and
 - 3.9.3. they also propose different cost structures. SVE charges a licence fee for the Council to utilise the digital tool, but the additional Council resource costs for using the tool must also be factored in. SVP charges a higher annual fee, but this includes providing resource to utilise the tool. SVP also charges a nominal fee to contractors, and reimburses the fee paid by the Council if a sufficient value is recovered from contractors (i.e. the more contracts that utilise the SVP, the cheaper for the Council).

OPTION 3 – In-house Digital Social Value Toolkit

- 3.10. The Council could look to develop its own Digital Social Value Toolkit that is tailored to its precise needs. While it is anticipated that this is likely to be a costly, resource-intensive and time-consuming, a full analysis of the practicality and potential of this option will be undertaken.

Next steps

- 3.11. PACS will continue to work with commissioners to assess the above options. While Options 2 and 3 will provide much greater detail and clarity as to the actual Social Value achieved in all the Council's contracts, both of these options will require some level of additional resource and attract an additional cost.
- 3.12. Once all Options have been thoroughly investigated by PACS and following the consultation referred to in paragraph 4.1.2, the Head of Commercial (Legal) within PACS will recommend a preferred option to the Chief Officer Financial Services for approval in accordance with her delegated authority. It should be noted that once in place the process will be monitored closely by Internal Audit to ensure the Social Value outcomes are effectively measured and reported appropriately, with further annual reporting to this committee, Scrutiny and Executive Board. However, it should be further noted that it is anticipated that to effectively embed and communicate the preferred Option across the Council will take a minimum of 6 to 9 months before any valuable data becomes available.
- 3.13. A further report will be brought to this Committee in March 2020 which will: a) report on procurement performance and procurement issues across 2019-20; and b) confirm the chosen approach to identifying, measuring and reporting on Social Value.

3.14. Finally, it should be noted that PACS is currently working on proposals as to how best to incentivise performance of Social Value commitments by contractors. It is anticipated that the most efficient and effective way to ensure such performance will be to apply a proportionate financial penalty for non-performance. This will be consulted on in due course and the final proposals will be incorporated into the Council's standard-form contracts.

4. Corporate considerations

4.1. Consultation and engagement

4.1.1. Consultation with Members (including this Committee, Scrutiny and the Executive Board) was undertaken in respect of the Procurement Strategy. Further consultation with Members (including by way of this interim report) will continue before a final decision is to be made as to the most appropriate approach to identifying, measuring and reporting on Social Value.

4.1.2. PACS continues to work with commissioners and Internal Audit to identify the most effective and appropriate method of identifying, recording and reporting on Social Value in procurement.

4.2. Equality and diversity / cohesion and integration

4.2.1. There are no implications for this report, though see paragraph 2.7 regarding the benefits of Social Value in procurement. Each procurement process requires consideration of equality matters within any procurement activity undertaken.

4.3. Council policies and the Best Council Plan

4.3.1. The vision from the Best Council Plan is for Leeds to be a compassionate, caring city that helps all its residents benefit from the effects of the city's economic growth. These values are reflected within the Procurement Strategy which will seek to deliver the Council's best city and best council ambitions, and Social Value in particular (see paragraph 2.7).

Climate Emergency

4.3.2. The Council's approach to Social Value in procurement requires consideration of environmental matters (including the climate emergency) within any procurement activity undertaken.

4.4. Resources, procurement and value for money

4.4.1. The costs of delivering the research into the Digital Social Value Toolkit to date have been internal staffing costs. The decision over which of the options referred to in this report will be adopted shall include a value for money assessment.

4.5. Legal implications, access to information, and call-in

4.5.1. There are no legal issues in this report.

4.6. Risk management

4.6.1. Risk Management is a critical and continuous process, and appropriate risk assessments will be undertaken, reviewed and managed as part of the options appraisal referred to in this report.

5. Recommendations

Corporate Governance and Audit Committee is recommended to note the contents of this report.

6. Background documents¹

6.1. None

¹ The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.