

## Social Value Fund Proposal

Date: 22<sup>nd</sup> June 2022

Report of: Director of Resources

Report to: Executive Board

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

### What is this report about?

#### Including how it contributes to the city's and council's ambitions

- An outline proposal has been developed, referred to as the Social Value Fund, which involves charging suppliers/tenderers an annual fee that could be used to contribute to social and economic value in Leeds. If approved, it is expected that the proposal could generate more than £500,000 every year from as early as the financial year 23/24. Association with the initiative may also be attractive to organisations that do not currently supply/tender for the Council, providing an additional funding source.
- Tackling poverty and inequality and improve quality of life for everyone who calls Leeds home is at the heart of the Best City Ambition. This is reflected within the Procurement Strategy which seeks to deliver the council's Best City Ambition, and social value, through the Council's procurement activities. The Social Value Fund proposal seeks to make a direct contribution towards making Leeds the best city in the UK.

### Recommendations

- a) That the Executive Board approve the Social Value Fund Proposal, for implementation by the Director of Resources.

### Why is the proposal being put forward?

#### Background

- 1 The Social Value Act (2012) requires the Council to have regard to Economic, Social and Environmental well-being in connection with our contracts. In May 2016, the Council and other partners in the city signed up to the '*Leeds Social Value Charter*'. The Leeds Social Value Charter sets out social value ambitions for Leeds and goes further than the Social Value Act in asking council officers to consider social value in all we do, including procurement and commissioning.
- 2 Examples of Social Value delivered since adoption of the Leeds Social Value Charter include:
  - 2.1 Employment & Skills - the £165,000,000.00 Victoria Gate project, where 18% of the project value was spent locally, over 122 weeks of work experience was provided, 534 new entrants were employed on the project and 16.4% of the project work force were locally employed from Leeds
  - 2.2 Employment & Skills - working with contractors who had Employment & Skills obligations via a section 106 agreement (an agreement between a developer and a local planning authority about

measures that the developer must take to reduce their impact on the community) in the planning process. As a result, the following were delivered:

- **2018/2019** - 239 supported Leeds residents into a new job or apprenticeship
- **2019/2020** - 555 supported Leeds residents into a new job or apprenticeship

- 2.3 Sustainability – in addition to delivering the required number of school places for Leeds, commissioning the projects on the Learning Places Programme created over 2,300 new apprentice and employment positions for local people in Leeds up to June 2017, and ensured that the firms employed recycled or reused 99% of waste generated during the construction process
- 2.4 Fair Employment Terms - the Council committed to working towards the Rowntree Foundation Living Wage and increased support to home care providers with a request to them to improve basic pay by injecting an additional c£1 million into these contracts. Additionally, the new home care fee included payment for travel time and travel costs
- 2.5 Anchors Network - The Council has also developed a collaborative and systematic approach to engaging with anchor institutions. The Anchor Procurement Group meet frequently to discuss ways in which we can collaborate and actively promote collective action on employment, low pay, and social responsibility
- 2.6 Local (Leeds £) and SME Suppliers – The Council has increased spend year on year with local suppliers and SMEs for each of the last 5 years. Spend with local suppliers and SMEs equated to 65.88% of total expenditure in 2020/21 (up from 64.64% in the previous year)
- 3 Whilst commissioners are required to consider how social value may be delivered through all the Council's contracts, it is currently not practical to measure and monitor social value delivered through all lower value contracts under £100,000, where the administrative overheads for both bidders and the Council of putting forward proposals and assessing them may outweigh the benefits.
- 4 The Social Value Fund Proposal is a new, additional initiative which will capture all contracts (including those under £100,000). It will not however, be a substitute for direct social value currently delivered through contracts.
- 5 It is recommended that the Social Value Fund Proposal is approved, to provide a simple mechanism to generate a significant new income stream through which social value through procurement could be enhanced.

## The proposal

- 6 It is proposed that any organisation (except those that pose a risk of damaging the Council's reputation) could contribute to the Social Value Fund, for an annual fee as set out below in paragraph 8, in exchange for:
- a) a certificate (or similar) confirming their contribution. Organisations may then use this to demonstrate social value commitment (for example, when undertaking procurements for other organisations where evidence may be required)
  - b) a listing for their business on the leeds.gov.uk Social Value Fund Contributors webpage
  - c) an evaluation benefit towards Social Value questions within Leeds City Council procurements
  - d) the opportunity to provide some indication as to where their (and other organisations') contributions might be spent
  - e) updates as to Social Value Fund spending and outcomes achieved
  - f) a tax saving benefit (it is expected that contributions will be a tax-deductible expense for organisations)

- 7 For existing council suppliers, it is proposed that we would assume they wish to participate in the Social Value Fund, but with the ability to 'Opt-out' within a prescribed time period. For new council procurements, an evaluation benefit would be available to those tenderers who 'Opt-in' and it is proposed that contributing to the Social Value Fund would be mandatory for the successful tenderer. For any organisation who contributes it is proposed that their contribution would automatically renew each year on 1 April unless they expressly 'Opt-out' beforehand (or cannot 'Opt-out' due to being a new contracted supplier).
- 8 The annual fees proposal for a full year (1 April to 31 March) are set out in the table below, and do not include VAT (where it applies, it would be added on). The annual fees would be pro-rata if an organisation contributes part-way through a year. Lower fees are proposed to be charged to Employers based in the local area (within Leeds) and no fees are proposed to be charged to VSCE's/public-sector organisations and micro-entities within Leeds. Additional contributions to the social value fund would be encouraged by referring to the annual fee as a minimum charge and stating that additional contributions could be made.

	<u>Annual full year charge</u>	
<u>Business size</u>	<u>Within LCC</u>	<u>Outside LCC</u>
VCSE or Public Sector (any size) / Micro-Entity	£0	£150
11-249 employees	£250	£500
250+ employees	£625	£1,250

- 9 Contract, procurement, and other standard council documentation is proposed to be updated to refer to the Social Value Fund with a view to encouraging further contributions. With over 600 procurements each year and over 1,500 *contracted* suppliers the following are proposed to make a material difference to contributions received:
- procurement documentation would highlight the benefit of the automatic scoring given towards social value questions for any tenderer who could evidence they are a current contributor to the Social Value Fund.
  - the Council's standard terms and conditions would be updated to make it a contractual obligation for any new contracted supplier that they must contribute to the Social Value Fund each year they are contracted to work with the Council.

It is acknowledged that there would be scenarios where contributions might not reasonably be made mandatory. For example, on framework call-off contracts where no spend is made by the Council or procurements with other organisations where Leeds City Council is not the sole buyer.

- 10 Whilst the listing on Leeds City Council's website for organisations contributing to the Social Value Fund would neither endorse an organisation nor take a prominent position on the website, it is expected that it might be considered attractive to organisations due to the digital value of an outward link (a 'backlink') to their website from a website as authoritative as the Council's. If this proves to be the case, it could be attractive to organisations outside the Council's supply chain, which could materially increase contributions to the Social Value Fund.
- 11 Social value priorities in Leeds are likely to change over time, and so flexibility in how funds are distributed is considered to be important. It is proposed that an advisory panel consisting of elected members, officers and third-sector representatives would be established to provide recommendations to the Director responsible for any formal decision over the distribution of any monies generated from the Social Value Fund. The advisory panel could consider the current social value priorities in Leeds, as well as any suggestions made by contributors to the Fund (as mentioned in paragraph 6d) and make informed recommendations about the most appropriate way

to distribute funds. The Director (and/or any officer with delegated authority) will remain responsible and accountable for making decisions on how funds raised through the Social Value Fund would be distributed and would not sit on any advisory panel to ensure both functions i.e., the panel providing advice and the officer(s) making the formal decision remain independent of one another. The distributions made from the Social Value Fund might include (but are not limited to) funding:

- a) new Council led social or economic value projects
- b) new VSCE/third sector social or economic value initiatives
- c) existing Council led social or economic value projects that are most at risk of being (or have previously been) reviewed, reduced, or removed
- d) VSCE/third sector organisations to distribute funding on the Council's behalf

## What impact will this proposal have?

**Wards Affected:** All

Have ward members been consulted?       Yes       No

- 12 It is predicted that the outcome of a decision to proceed with the Social Value Fund proposal would generate over £500,000 of new income for the Council each year within 12 months of the decision being made and every subsequent year after that. This figure has been estimated by assuming that 40% of the Council's circa. 5,600 suppliers (circa. 1,500 of which are *contracted* suppliers) chose not to 'Opt-out' when asked to contribute to the Social Value Fund, at a rate of £250 per contributor, this gives 2,240 businesses x £250 = £560,000. The estimated figures do not factor in any additional contributions, for example from tenderers looking for an evaluation benefit or organisations who do not tender for/supply the Council who would like a listing on the leeds.gov.uk website (or to receive the other benefits referred to in paragraph 6).
- 13 Income generated could then be used to deliver social and economic value in Leeds which would have a direct impact on residents and businesses in the city, including citizens facing poverty and inequality.
- 14 The proposal would mean a direct cost to some businesses based in Leeds (and elsewhere). However, businesses would have the opportunity to 'Opt-out' as contribution would only be mandatory for suppliers who choose to tender and/or supply the Council. It is however, hoped that businesses would consider the benefits set out in paragraph 6 sufficient incentive to contribute.
- 15 Equality, Diversity, Cohesion and Integration have been considered, and a screening exercise has been undertaken. A copy of the screening exercise is included as Appendix A to this report.

## What consultation and engagement has taken place?

- 16 There are no legal or statutory requirements to consult or engage on this proposal, however in the interests of best practice consultation and engagement have taken place and is set out below.
- 17 Two online discussions have been held with Leeds Community Foundation between March and May 2022 to discuss the Proposals generally and gain an insight into how Leeds Community Foundation could assist with distribution of funds if required (as alluded to in paragraph 11d above). The engagement was positive, and there was a feeling that Social Value Fund could provide a flexible, long-term funding stream to contribute to a broad range of social value initiatives in Leeds and that Leeds Community Foundation could help with fund distribution if required.
- 18 An informal face to face meeting was held in May 2022 with the Chamber of Commerce to provide an overview of the Social Value Fund Proposal and obtain their initial thoughts. Based on the initial discussions, the proposal was well received, and the Chamber of Commerce were supportive. It was acknowledged that the proposal fits well with the Chamber of Commerce' own social value initiative 'Raising the Bar', and it was felt that it would facilitate local businesses being recognised as a force for good which aligns with local business sentiments. It was agreed further discussions would be held should the proposal be approved.

- 19 Indirect engagement was undertaken by way of a questionnaire sent to the Council's suppliers in August 2021 concerning the provision of social value in Leeds. The questionnaire asked the Council's suppliers *'Do you currently provide Social Value in Leeds beyond the core works, goods, or services under your LCC contract? If so, what?'*. Out of 1,549 survey recipients, only 13 responded (<1%), suggesting that there would be benefit to the Council delivering social value on behalf of its supply chain through a scheme such as the Social Value Fund.

### **What are the resource implications?**

- 20 It is proposed that the project would be managed within Procurement and Commercial Services alongside its other social value works.
- 21 It is anticipated the project could be set-up and delivered to the point where success could be measured using existing resources and with no (or minimal) cost. If the project proves to be a success, then is likely additional resources and expenditure would be required to fund ongoing administration and set up the project for long term operation. It is proposed that any expenditure incurred would be funded by income generated.

### **What are the legal implications?**

- 22 The Social Value Act (2012) requires the Council to have regard to Economic, Social and Environmental well-being in connection with our contracts. This proposal has a direct, positive, impact on the social and economic value we could deliver in connection with our contracts and therefore this proposal facilitates compliance with the Social Value Act (2012).
- 23 The Public Contract Regulations (2015) set out the requirements for contracting authorities to observe when procuring goods, works and services. The proposal would require the Council's procurement documentation and supplier terms and conditions to be updated to set out the new obligations on tenderers and/or suppliers in line with this legislation. There is a limited risk of legal challenge (which could be monitored and managed) if any changes made were perceived to provide an unfair advantage to organisation's bidding to work with the Council

### **What are the key risks and how are they being managed?**

#### **Risks of not going ahead**

- 24 Social and local economic value achieved through the Council's supply chain is primarily focused on high value contracts (i.e., over £100,000 in value). However, while commissioners are required to consider how social value may be delivered through all the Council's contracts, it is currently not practical to measure and monitor social value delivered through lower value contracts. The Social Value Fund proposal provides a mechanism by which to deliver social value through all contracts.
- 25 Funding for social and economic value initiatives may be reduced or removed due to funding pressures, and new initiatives unable to be funded. This puts the Council at risk of being unable to meet its Best City Ambition. The Social Value Fund could provide a new, dedicated income stream by which social and economic value funding could be expanded or protected.

#### **Risks of going ahead**

- 26 There is a possible reputation risk to the Council posed by affiliation with organisations who may wish to contribute to the Social Value Fund. The risk is mitigated by most contributors (at least in the first 12 months) being current or past approved suppliers of Leeds City Council. However, for organisations who have not been approved to supply the Council and wish to contribute, it is proposed that some pre-screening would be undertaken to certain industry sectors and countries that posed a reputation risk. As a further safeguard, there would be the facility for website users to report any organisation on the Social Value Contributors webpage that they felt ought not to be listed.
- 27 The Data Protection Act (2018) is the UK's implementation of the General Data Protection Regulations (GDPR) and sets out obligations around governance risk and the processing of personal data. We have consulted Information Management & Governance and they have

confirmed that the supplier data we propose to use would be defined as personal data and therefore would not be within the scope of this legislation,

- 28 The Freedom of Information Act (2000) provides public access to information held by public authorities. It is likely that there would be a public interest in how funds raised through the Social Value Fund were managed/allocated. This would be managed by retaining financial records as to how any funds raised are managed/allocated, as well as the creation of a panel (as referred to in paragraph 11) to ensure that funds are managed/allocated appropriately.
- 29 There is a risk that tenderers who bid for contracts above £100,000 would feel as if they were 'paying twice' as it is a requirement that they make use (and pay for the use) of the Social Value Portal. However, the cost of contribution to the Social Value Fund is relatively low both in relation to the overall contract value and when compared to the costs required for the Social Value Portal. Furthermore, tenderers are not obligated to bid for the contracts and could choose to factor in any contributions towards the Social Value Fund or otherwise into their tender.

### **Does this proposal support the council's 3 Key Pillars?**

Inclusive Growth

Health and Wellbeing

Zero Carbon

- 30 The proposal directly supports Leeds Inclusive Growth Strategy by seeking to generate a new income stream that can be used to deliver social and economic value to the city and its citizens, in the context of (amongst other things) Inclusive Growth, Health and Wellbeing and Zero Carbon.
- 31 The Social Value Fund initiative is proposed to be managed by Procurement and Commercial Services alongside its other social value work, and links into the Council's Procurement Strategy which, independent of this proposal, sets out how it will support each of the Council's 3 Key Pillars.

### **Options, timescales and measuring success**

#### **a) What other options were considered?**

- 32 An alternative option was considered called the 'Invoice Discounting Proposal' which would have involved deducting sums of money from supplier payments for contribution to social and economic value in Leeds. Following a short period of consultation and investigation into the practicalities of implementation this option was discounted.
- 33 Whilst the opportunities presented by the 'Invoice Discounting Proposal' were largely the same as the Social Value Fund, there were several risks which led to it being discounted including:
- i) a lesser pool of organisations able to contribute leading to less income being generated
  - ii) concerns surrounding the practicalities of implementation and timescales of implementation
  - iii) transparency/consistency in charging for contributions from suppliers

#### **b) How will success be measured?**

- 34 Updates on progress of the Social Value Fund would be made regularly, including at least once every three months to the officer led Social Value Board, and annually to the Scrutiny Board (Strategy and Resources) as a part of overall social value reporting.
- 35 Proof of concept would be measured by reviewing the total amount of income generated from the proposal within 6 months from the date of approval. The target is to generate more than £100,000 of income within this time frame.
- 36 If the project proves a success, namely generates over £100,000 with no (or minimal) cost within 6 months of approval, it is proposed that the project would be set-up for a broader roll-out and that financial projections would be prepared with a view to including income (and any costs) within the 2023/24 Council Budget Proposals. These financial projections which in turn would become a benchmark against which to measure future success.

37 It is also proposed that social value outcomes would be measured both in terms of pound for pound contributions made and the economic value of outcomes delivered.

**a) What is the timetable for implementation?**

38 Assuming there are no unforeseen delays it is proposed there would be a six-month timetable from decision, through implementation, to measuring if the project was a success.

39 Between June and September 2022, it is proposed that communication would begin with suppliers about the Social Value Fund and providing the opportunity to '*Opt-out*'. During this time, it's also proposed that any procurement documentation/terms and conditions would be updated and that all practicalities around set-up would be finalised and ready to launch (including, setting up dedicated webpage(s) for contributors, finalising a certificate template, ensuring invoicing systems are ready).

40 From September 2022 onwards, it is proposed that everything referred to in paragraph 39 goes '*live*' and that invoices are issued to suppliers who haven't yet chosen to '*Opt-out*' so that income could begin to be generated.

41 In November 2022, it is proposed that the success of the proposal would be measured, and the future of the project considered.

**Appendices**

42 **Appendix A** - Equality, Diversity, Cohesion and Integration Screening

**Background papers**

43 None