

Consultation response

Social Value in Government Procurement

June 2019

Key recommendations

- Buyers must be helped to understand how different types of provider, such as co-ops, might be well-placed to deliver particular social value outcomes, such as decent work, or reduced inequalities in opportunity, influence and wealth
- A social value model based on broad categories like 'VCSE' needs to understand co-ops better and root out 'sham' VCSEs
- The social value model should link different types of business ownership to particular social value outcomes
- The social value model should drive public and private procurement that builds local wealth and creates opportunities for decent livelihoods in deprived places
- Action should be taken to ensure co-operative and community benefit societies are not needlessly disadvantaged in tendering processes
- Stop allowing businesses that pay their fair share of tax, and thus must bid at a socially responsible rate, to be disadvantaged in tendering

1 Question 1: Do you agree with the proposed policy metrics in the model in the attached annex? Do you have examples of such metrics being successfully used in public procurement?

Diverse Supply Chains

“Number, value and percentage of spend of prime and sub-contracting opportunities won by SMEs and VCSEs in relation to the contract”

- 1.1 We fully support the intentions behind this proposed theme and policy outcome. There are thousands of co-operatives and other VCSEs that are very well positioned to deliver significant social value in public contracts and supply chains. These businesses and organisations are often at a disadvantage in public tendering processes; because they compete on quality, ethics and outcomes rather than just price; because they can lack scale; and because they add social value that is not specifically being procured.
- 1.2 However, we believe the proposed theme and policy outcome are problematic in the extent to which they make access to supply chains for broad categories of provider (such as SME and VCSE) an end in itself, without linking this access to actual social value outcomes. As a consequence, it will be more difficult to design metrics that encourage meaningful outcomes. We are concerned that this increases the risk that the proposed theme and metric will be experienced as unnecessary red tape or 'tick box' exercises,

which would do a disservice the many co-operatives and other VCSEs that really are so well positioned to deliver significant social value.

- 1.3 To make this useful in practice, we suggest an added conceptual layer is required. Different types of provider - not only SMEs and VCSEs but also worker-owned businesses and mission-led businesses - have corporate purposes, organisational structures and *modus operandi* which can make them better-placed to deliver on particular social value outcomes. For example, worker-owned businesses are especially effective at providing good work and sharing opportunity, influence and reward broadly among a wide range of people in supply chains.^{1 2} In this example, the way ‘freelancer co-operatives’ can provide a practicable, empowering and rewarding means for smaller businesses and freelancers to participate in government supply chains should certainly not be overlooked.^{3 4} To take one more different example, some types of VCSE provider have organisational and delivery models that empower local communities and end-users, which can significantly enhance the quality of co-production, while nurturing and mobilising social capital to deliver better outcomes.⁵
- 1.4 To make this beneficial, public procurers and the private procurers in their supply chains must be helped to understand how different types of provider might be well-placed to deliver particular social value outcomes. The table below illustrates the kind of guiding information users of the model might find useful.

Type	Social value-added	Examples
<p>Co-operatives: businesses that operate to meet the needs and aspirations of their members, who either work in, trade with or otherwise share in the social value created by the business, and who share ownership and control of the business</p> <p>Note: are often also social enterprises and sometimes also voluntary and community organisations</p>	<p>Sharing business ownership and control among more stakeholders in supply chains</p> <p>Giving more people a stake and a say in supply chains</p> <p>Hardwiring accountability and co-production for key stakeholders</p> <p>Nurturing and mobilising social capital</p> <p>All profits must be used to further the mission of the co-operative (e.g. develop business; provide decent work; encourage member participation)</p>	<p>Calverts: a worker-owned design and print agency</p> <p>Be Caring: a group of worker-owned homecare providers</p> <p>Cartrefi Cymru: a disability support co-operative with users and staff as equal member-owners</p> <p>Co-op Web: a worker-owned digital services provider</p>
<p>Social enterprises: businesses trading for social and environmental</p>	<p>Commercial activity delivers one or more social benefits, such as</p>	<p>Greenwich Leisure: a staff-owned mutual and a social enterprise</p>

¹ Employee Ownership Association (2018) '[The Ownership Dividend](#)'

² Virginie Pérotin (2015) '[What do we really know about worker co-operatives?](#)'

³ FSB and RSA (2017) '[The self-organising self-employed](#)'

⁴ Co-operatives UK (2018) '[Co-operatives in the creative industries](#)'

⁵ Co-operative Care Forum (2017) '[Owning our care](#)'

<p>purposes that reinvest more than half their profits in their social mission</p> <p>Note: are sometimes also co-operatives</p>	<p>providing inclusive work opportunities, offering 'pro-social' consumer products or redressing environmental harm</p> <p>More than half profits made on a contract go back into enhancing social impact</p> <p>Distributing opportunity and wealth through contracts</p>	<p>Vi-ability: delivers sports programmes for clubs and corporates, with the aim of engaging young people and helping them achieve positive life outcomes</p> <p>WildHearts Office: Provides office and business supplies in a way that 'democratizes opportunity' both for British young people and for those living in poverty across the globe</p>
<p>Mission-led businesses: profit-distributing businesses that also seek to deliver clear, measurable social benefits through their commercial activity</p> <p>Note: are sometimes co-operatives</p>	<p>Commercial activity delivers one or more social benefits, such as providing inclusive work opportunities, offering 'pro-social' consumer products or redressing environmental harm</p>	<p>Certified 'B Corps'</p>

'Sham' social enterprises

- 1.5 In preparing this consultation response, we were asked by one co-operative to raise the issue of "*sham trusts*" being used by for-profit providers to dishonestly win public contracts in the leisure sector. A simplistic weighting towards VCSE providers in tenders may encourage more of this disruptive, dishonest and damaging behaviour.
- 1.6 It will be all the more important to weed out and expose 'sham' VCSEs. This may need action at the level of registrars (such as the CIC Regulator) as well as public procurers.
- "Number, value and percentage of spend of prime and sub-contracting opportunities won by businesses owned or led by under-represented groups in the supply chain in relation to the contract"*
- 1.7 The policy objective of ensuring supply chain access to businesses owned and controlled by under-represented groups is very welcome and is certainly more closely related to particular social value outcomes than the one discussed above. We hope that this theme and metric includes businesses owned and controlled by their workers and by communities of place and interest (e.g. co-operatives). More distributive patterns of economic ownership are increasingly understood as a means of creating a genuinely inclusive economy.⁶
- 1.8 But again, to drive genuinely meaningful outcomes, this metric will need to operate in a way that **links different types of business ownership and control to particular social value outcomes.**

Skills and employment

- 1.9 The metric for the number of full-time employment opportunities for disadvantaged people focuses on some very important groups, such as ex-offenders and care-leavers,

⁶ IPPR (2017) ['Wealth in the twenty-first century: Inequalities and drivers'](#)

and we welcome it. This metric could perhaps also include people living in the 20 per cent most deprived LSOAs in the country. The metric could also cover the use of community partnerships in deprived areas to provide inclusive recruitment pathways. Evidence suggests that place-based and community-engaged approaches to boosting skills and inclusive recruitment are particularly effective.⁷

- 1.10 Metrics for skills and employment should also account for less formal, but no less valuable, forms of personal development that can sometimes be gained through paid work and other forms of participation. As an example, successful co-operatives invest time and resources to equip their members to take on the roles and responsibilities of co-owning and controlling the business. In the context of this consultation, these members are likely to be workers in the business, service users or members of the local community. Capability building for members of co-operatives tends to include training and practical experience of strategic decision making, business planning, financial management and directorship.⁸

Inclusion and improved staff mental health and wellbeing

- 1.11 While gender pay balance, disability, BAME inclusion and mental health all need urgent attention, where the policy objective is kept broad ('inclusion', 'wellbeing') we suggest that other metrics could also be included, such as pay ratios generally, economic inequality impacts⁹, worker and other stakeholder participation in decision-making and established wellbeing indicators such as absence levels, employee turnover and accidents/injuries at work. At the very least, reference should be made to government's own Good Work Plan, published by BEIS in December 2018.

More cohesive communities

- 1.12 We really welcome this policy objective. Alongside the metric on community engagement, we suggest the following:
- empowering communities in deprived places to create opportunities for decent livelihoods (see 1.9 above)
 - supporting individuals and communities in deprived places to enjoy greater agency, ownership and control in the economy (known internationally as 'community economic development'¹⁰)
 - enhancing community infrastructure and assets
- 1.13 Government could encourage alignment between social value procurement (public and private), Local Industrial Strategies and the use of public money (such as the Stronger Towns Fund and the UK Shared Prosperity Fund) in supporting local wealth building in

⁷ JRF (2016) '[Uneven growth: tackling city decline](#)'

⁸ <https://www.uk.coop/advice/products-and-services/training>

⁹ Oxfam (2018) '[Reward work not wealth](#)'

¹⁰ See our work on 'community economic development' [here](#)

deprived places, down to the town and neighbourhood level.

2 Question 2: Do you agree that the proposed minimum 10% weighting for evaluating social value in the bid is appropriate?

2.1 No. While none are unimportant, some themes are more important than others and this should be reflected in the minimum weighting. In particular, environmental sustainability and slavery-free supply chains are markedly more important than the rest.

3 Question 3: Does the proposed approach risk creating any barriers to particular sizes or types of bidders, including SMEs or VCSEs? How might these risks be mitigated?

Understanding co-operatives

3.1 Yes, because based on what members have told us in response to this consultation, the specific social value-added by co-operatives, through how they are owned and controlled for example, is often lost in overly generic approaches to social value procurement.

3.2 Where the model is based on broad categories such as VCSE, there is a particular risk that many co-operatives that deliver significant social value will be unreasonably disadvantaged. This is because categories in common usage today, such as for-profit and VCSE do not always accommodate co-operatives. We are especially concerned that worker owned businesses that are well placed to deliver significant social value in government supply chains are usually excluded from VCSE categorisation.

3.3 We asked co-operatives whether their distinctive ownership and control, missions and purposes and uses of surpluses, enhances their ability to add social value in public contracts and supply chains, and whether this is recognised in practice. Here's what they told us:

- **ownership and control:** one co-operative reported that their lack of external shareholders created added social value, which had been helpful in bidding for public contracts; however, tellingly, a worker owned co-operative reported never having seen any weighting towards worker ownership and control in a public tender
- **mission and purpose:** a worker owned co-operative told us that their mission to provide good, empowering work and opportunities, did not gain much merit in public tenders; another co-operative that is also a regulated social enterprise reported that this characteristic did enhance their score in some procurement exercises
- **use of surpluses:** responses suggested this is often a tricky area, as where the key social value being delivered is decent work and low inequalities in the firm, sharing profits equitably among all workers should be a positive, but respondents told us that social value procurement tends to only privilege profits reinvested in the business, or in ancillary community projects

3.4 When VCSE access to supply chains is a theme, an objective and a metric, this could be

especially problematic. There are nuances in the distinctions and overlaps between ‘co-operative’, ‘social enterprise’ and ‘voluntary organisation’, which only really become clear and understandable when form and function are considered together in a real life context.

- 3.5 From the responses above, we suggest the framework should actively discourage overly-simplistic weightings towards characteristics such as being a regulated social enterprise, or being fully non-profit distributing, where the social value being sought does not require it.
- 3.6 Thus, helping public and private procurers to understand the links between particular types of business purpose, organisational model and *modus operandi* on the one hand, and particular social value outcomes on the other, is critical.
- 3.7 In particular we believe there would be value in government developing a clearer internal understanding of what co-operatives are and how their combination of ownership, control and purpose align with particular social value outcomes. Co-operatives UK is always ready to assist in this regard.

Co-operative and community benefit societies

- 3.8 Furthermore, there is a specific risk for the many co-operative and community businesses that use less-well-known and often under-served legal forms: ‘co-operative societies’ and ‘community benefit societies’, incorporated under the Co-operative and Community Benefit Societies Act (rather than being companies under the Companies Act). In a recent consultation with our members we were told that co-operative and community benefit societies (‘societies’) sometimes fail to qualify for public sector tenders, because tenderers use credit reference agencies that do not collect financial data on societies.
- 3.9 Society data is held on a separate public register to company data (called the Mutuels Register) that was until 1 April 2019 costly to access for third parties such as credit reference agencies. Thankfully the Mutuels Register is now free to access and this creates a new opportunity to improve the treatment of societies in the public procurement process.
- 3.10 We suggest that public procurers, and private sector procurers in their supply chains, should be required to obtain and consider societies’ full financial data, to prevent inadvertent discrimination.

Fair tax payers

- 3.11 We note that the framework encourages no consideration of whether businesses pay their fair share of tax. Clearly businesses that do this, such as those who have signed up to the Fair Tax Mark, will be disadvantaged when competing against others who, because of offshoring and other aggressive tax planning, can bid at lower, socially irresponsible rates.

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About Co-operatives UK

Co-operatives UK is the politically independent association for thousands of co-ops. We work to promote, develop and unite member owned businesses across the economy. From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-ops are everywhere and together they are worth £36.1 billion to the British economy.