



Social Economy Network submission to:

Committee for Finance and Personnel

**Inquiry into Public Procurement Policy and Practice in Northern
Ireland. February 2009**

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the Committee for Finance and Personnel
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The Social Economy Network (Northern Ireland) Ltd welcomes the opportunity to comment on public procurement practice in Northern Ireland.

The Social Economy Network is a membership organisation (current membership 103) drawing its members from social enterprise initiatives throughout Northern Ireland. The aims of the network are to

- Develop and strengthen the membership
- Foster, support and encourage exchange of experience, information and knowledge within the sector
- Provide a channel for social economy sector input into policy development
- Represent the views of the sector in engagement with government
- Promote the role of the social economy and its contribution to socio – economic growth and development

This submission was informed by input from members through a consultation session facilitated by SEN on 20th February 2009 and previous SEN consultation sessions which dealt with the issue of public procurement.

How public goods and services are procured.

1.0 How public goods and services are procured

Opportunities exist for social economy enterprises (SEEs) to do business with the public sector. Many have successfully secured contracts for service delivery- Bryson Recycling with local councils; Ardmonagh Family Centre and Irvinestown Trustee Enterprise Company for the delivery of health & social care services through contracts with health trusts and a range of other social economy enterprises for the delivery of training services through contracts with DEL .

Public bodies in Northern Ireland procure goods and services from the social economy and voluntary sectors in the following ways:-

Grants for the delivery of services;
Contracts/Service Level Agreements (SLAs); and
Open Competitive Tendering.

Grants and contracts/SLAs have historically been used by Government Departments, their second step agencies and Local Councils for the delivery of local services including health & social care; health promotion; education and training; employment and supported housing services. In the past 20 years there has been a definite move away from grants to commissioning services through contracts/SLAs. More recently we have experienced the introduction of competitive tendering. There is a distinct difference between commissioning of services and public procurement through competitive tendering. Some Government Departments and second step agencies favour the commissioning model. One of the key problems identified with the commissioning model of services is duration of contracts. In some instances contracts must be bid for on an annual or bi-annual cycle which places undue pressure on staff time and costs to the organisation. Longer term contracts of 3-5 years would be more beneficial for organisational planning and sustainability. The fact that the level of finance available for service delivery this year - in the health & social care field- is set at 3% less than the cost of delivering the same service last year is also an issue. Departmental efficiency savings were not intended to affect front line services but clearly in such instances they will.

Many Social Economy Enterprises (SEEs) are very familiar with and experienced in the process of commissioning for the delivery of local public services through contracts and SLAs. Public procurement through open competitive tendering however is a process more familiar to the longer established and larger SEEs.

This experience is very similar to that of the private sector. The Small Business Service-Annual Survey of Small Businesses: UK-2005 found that:-

- 15% of SMEs had done some work for the public sector.

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- The larger the firm the more likely they were to have done some work for the public sector. 34% of medium- sized businesses had done some work for the public sector, compared to 28% of small businesses and 20% of micro businesses.
- Businesses of four years and older were more likely than their younger counterparts to have done public sector work.
- Small businesses were more likely to have done work for local authorities as opposed to Central Government Departments.

Capacity and experience of organisations are clearly factors in terms of entering into public procurement and winning tenders.

There are currently no statistics on the numbers of SEEs who compete for public contracts nor for the numbers who successfully secure contracts. **It would therefore be beneficial to collect such data to establish a baseline of information against which to compare the situation on an annual basis and assess progress.**

The provision of feedback on tenders – successful and unsuccessful- was cited by SEEs as a positive aspect of the procurement process and a valuable learning experience

2.0 Barriers faced by SEEs in the public procurement process

- **Lack of knowledge and understanding among the Social Economy Sector about the public procurement process.** Many of the small and newly established SEEs expressed an interest in becoming a supplier of goods and services to the public sector but were unaware of how to go about it and had limited knowledge of the policies and procedures governing public procurement. SEEs with little or no experience of doing business with the public sector need practical advice and training on procurement policy & procedures; information on how and where to access information on tendering opportunities and writing tenders so that they can acquire the necessary skills to enable them to take advantage of the opportunities presented.
- **Lack of knowledge and understanding among Public Procurement Practitioners about the Social Economy Sector-** The experience of SEN members is that the level of awareness and understanding of the Social Economy Sector is low and that Public Procurement Practitioners are unaware of SEEs as potential suppliers of goods and services. While SEEs and the Social Economy Network accept responsibility for the need to promote and market themselves more effectively there is a requirement for Government Departments and DETI, as the lead Department for the Social Economy Enterprise Strategy, to do more to raise awareness of the sector within Central and Local Government. It is particularly important, post RPA, to ensure that Local Councils have a good understanding of the role of SEEs, accept the social economy as a viable business model and recognise SEEs as potential suppliers of goods and services. The Social Economy Network (SEN) is willing to work with relevant

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Government Departments and Local Councils to raise awareness and increase understanding. SEN has developed a Social Economy Trade Directory which is currently being promoted as a resource to CPD and Local Councils. The Directory provides information on the goods and services provided by the SEN membership. If used as a resource by Public Procurement Practitioners it should go some way to addressing this problem but it needs to be positively promoted.

Public Procurement practitioners also need to get to know and understand the broader environmental, social and economic benefits and efficiencies that can be derived from the varied approaches to how goods/services might be delivered

- **Emphasis on financial capacity**

The social economy sector is disadvantaged by the emphasis in consideration of tenders, on financial capacity demonstrated by a build up of reserves in assessing the financial health of companies. This particularly affects those in the early stages of development who were prohibited from building up reserves while in receipt of grants. SEN argues that if there is to be equality of opportunity in accessing tenders then it must be acknowledged that existing means and criteria are exclusionary to SEEs and that amendments to criteria must be introduced to create a level playing field.

- **Special contract Arrangements**

In the experience of the social economy sector there has been little or no use made of Special Contract Arrangements (SCA) also known as the “offer back” system in public procurement tenders. Under SCA where a bid by a supported business falls only on price the contracting body can give a tendering supported business a chance to adjust its price. (The price tendered by the leading bidder must not be disclosed unless there is consent to do so)

- **Aggregating contracts**

Pressure on public bodies to secure efficiencies by aggregating contracts discriminates against small businesses, which includes many social enterprises. It should not be assumed that large suppliers offer better value for money. There are many advantages of using smaller enterprises which include:-lower overheads and management costs; and greater responsiveness to changing needs and ability to “tailor” goods and services. Little cognisance is given to the expertise and ability of SEEs (with local knowledge and understanding of needs and how best to address them) to deliver services effectively. Social enterprises experienced in this field require support from the public sector to enable them to develop their

capacity to grow to take on the prime contractor role; and to explore the feasibility of sub contracts and or public/social enterprise partnerships.

- **Public/Social Partnerships**

Consideration should be given to exploration of innovative ways of increasing business opportunities for SEEs through public/social partnerships which represent a new mechanism for bringing together public bodies and SEEs to create well designed services that deliver additional community benefits. This should be extended also to private/social partnerships where private sector companies are encouraged as part of tender specifications to provide sub contracting opportunities for SEEs.

3. The nature, extent and application of social clauses within public contracts.

Despite the Programme for Government recognising the valuable role procurement can have in reducing inequalities and promoting social exclusion social clauses still do not feature in public procurement contracts. The subjects of social clauses, community benefits and sustainable procurement suffer from the lack of a shared vocabulary and understanding between the social economy sector and public procurement practitioners. The lack of progress on the inclusion of social clauses into the procurement process is one of the most significant problems facing the development of SEEs in Northern Ireland. SEEs operate their businesses in a market place which does not recognise or take account of the added value they create and this puts them at a disadvantage when competing for public sector business.

The measurement of social value is one of the difficulties cited in respect of including social clauses in procurement specifications. The public procurement process focus on measurement tends to be fiscal. This focus needs to be broadened to take account of outcomes. The problem with current measures of value and how taking account of social value in market economies can address inequalities in society is explored in the Cabinet Office, Office of the Third Sector publication titled “Why measuring and communicating social value can help social enterprise become more competitive” Nov 2007.

There are a number of management tools currently used by SEEs to measure social value and impact, for example, Social Return On Investment (SROI), social auditing and social accounting. Social accounts are becoming an accepted reporting format for SEEs in England and Scotland.

According to a Social Economy Scotland Briefing – the Scottish Government has produced guidance on including social issues in public procurement, including the ability to purchase wider social benefit as part of procurement. The guidance concludes that it is entirely possible to recognise wider social issues within a procurement process, as long as

they are part of the primary purpose of the contract and they are incorporated into the specification.

A Cabinet Office, Office of the Third Sector publication titled “Why measuring and communicating social value can help social enterprise become more competitive” Nov 2007 explores the problems associated with measuring social value and identifies a number of solutions.

SEN Recommends that the understanding of social value be embedded in the practice and processes of public procurement and that the application of specific weighted criteria for social value be incorporated into specifications for tenders.

If the goal, as it should be, is to increase the capacity of SMEs and SEEs to submit and secure public sector contracts, it is essential to address the barriers they face in competing for public contracts. This will only be achieved through addressing the structural barriers inherent in the process, through the provision of awareness raising and training on the social economy sector for public procurement practitioners and the provision of appropriate information, training and effective support for SEEs to ensure transition to a level ‘playing field’.