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*CLES Bulletin* is a topical summary of articles which have appeared in the professional press. Its aim is to provide a pithy précis of a subject area, drawing out the specific and common issues raised in the individual articles.

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## ***Local Government Procurement, Social Enterprise and the Third Sector***

### **Introduction**

Procurement covers all of the processes involved in requesting, ordering, auditing, and paying for goods and services from an external provider<sup>1</sup>. Local government spends over £40 billion of our taxes each year on external goods and services. Ensuring Best Value in procurement strategies has been pushed up the agenda in the last six months, with the publication of several key reports<sup>2</sup>. In this edition of CLES bulletin we will consider some of the central issues in the reform of local government procurement strategies, and the role that social enterprise and the third sector could be playing in public service provision.

### **Why procurement matters**

The National Procurement Strategy for Local Government 2003-2006<sup>3</sup> states that local authorities have a legal and moral duty to ensure that they get good value for our money. Yet too many councils are paying too much for the goods and services they buy because "their procurement practices do not match up

to the best of the public and private sectors". Councils need to take advantage of their collective buying power, they need to look at a broader range of service providers (including the voluntary sector and social enterprises), and to streamline existing processes to deliver better services at a lower cost.

### **The National Procurement Strategy**

The National Procurement Strategy for Local Government 2003-2006, published October 2003 sets out how central and local government should work with the private, public and voluntary sectors to improve their procurement strategies. The strategy is based on the recommendations made by the Taskforce chaired by Sir Ian Byatt (*Delivering Better Services for Citizens*<sup>4</sup>). The central message of the Taskforce was to improve local services to citizens in affordable ways through better procurement.

The National Procurement Strategy for Local Government argues that purchasing power must be used intelligently. When deciding on the procurement approach for a particular requirement, councils should always take into account the added value that small firms, voluntary and community sector providers, social enterprises and ethnic minority businesses might bring.

The strategy includes a vision for local government procurement. By 2006 all authorities should be realising economic, social and environmental benefits for their communities through their procurement activities. By the end of 2004 every council should have published a "Selling to the Council" guide on its website, to allow voluntary and community sector providers, social enterprises and ethnic minority businesses equal access to the tendering process. All procurement strategies should address the relationship of procurement to the local authority community plan, taking into consideration workforce issues, diversity, equality and sustainability.

### **Sustainable Procurement Strategies**

**Sustainability and Local Government Procurement**<sup>5</sup> provides a guide to sustainable procurement strategies that have the greatest environmental and social impacts. The guidance explains current good practice in sustainable procurement and identifies the

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<sup>1</sup> CLES Glossary 2004, forthcoming.

<sup>2</sup> See footnotes 3, 4 and 5.

<sup>3</sup> National Procurement Strategy for Local Government 2003 – 2006, ODPM.

<sup>4</sup> Delivering Better Services for Citizens, ODPM,

[http://www.odpm.gov.uk/stellent/groups/odpm\\_control/documents/contentservertemplate/odpm\\_index.hcst?n=1739&l=2](http://www.odpm.gov.uk/stellent/groups/odpm_control/documents/contentservertemplate/odpm_index.hcst?n=1739&l=2)

<sup>5</sup> Sustainability and Local Government Procurement Nov 2003, IdeA.

opportunities that are open to local authorities to pursue sustainable development objectives within the framework of public procurement and Best Value.

The Local Government Act 2000, placed a duty on English and Welsh local authorities to prepare a community strategy for promoting or improving the economic, social and environmental well-being of their area and contributing to the achievement of sustainable development in the UK. Making procurement strategies accessible to a broader range of local suppliers will retain Local Government spending in the local area improving the well-being of local people.

However, under EU procurement law, public authorities cannot impose local labour, local sourcing or local 'subcontracting' requirements on suppliers. That would be contrary to the EU Treaty itself. However, there is nothing to prevent local authorities building into specifications and contracts requirements relating to community benefits to be delivered in a locality, provided that there is no direct or indirect discrimination against non-UK suppliers or workers.

### **Social Enterprise**

Community and voluntary organisations and social enterprises, for example, can have multiple social and environmental goals which complement a council's community strategy and will therefore assist them in delivering this alongside the procured goods, works and services in question.

Social enterprises are businesses with primarily social (and often environmental) objectives whose surpluses are reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

There are around 500,000 voluntary and community organisations in the UK. These range from small, local community groups to large, established national and international organisations. The sector is important economically. In 2000 it contributed £5.4 billion to GDP and employed 563,000 accounting for 2% of the total workforce.

Suppliers of this kind bring greater competition and innovation to the local government marketplace and are flexible in responding to changing requirements. They offer specialist or tailored products and services. In addition, they may play an important role in the local economy and contribute to social cohesion.

By building capacity and capability in these sectors and by simplifying procurement procedures and making them more accessible, local authorities can benefit from a diverse and competitive marketplace and help to realise the objectives set out in their community strategies including economic development, social inclusion and regeneration.

**Public procurement and social enterprises**<sup>6</sup> outlines the potential of social enterprises to contribute to neighbourhood renewal through winning public sector contracts. It argues however, that the sector is constrained by factors relating to procurement policies and practices in government bodies. The problem from a social enterprise perspective is often summed up in one comment: 'lack of a level playing field'.

Social enterprises often find difficulty in competing with mainstream service providers for a number of reasons. For example, very detailed legal forms or requirements for performance bonds can be off putting when the relevant skills are not available to complete the paperwork. The view of social enterprises as high risk suppliers, coupled with a failure to appreciate how social enterprises may be able to address their overall strategic objectives, including neighbourhood renewal, contribute to local authorities preference for public or private suppliers. See this months CLES Local Work for more details of social enterprises.

There are a number of ways in which procurement strategies can be developed to encourage the involvement of social enterprises, voluntary and community sector providers and ethnic minority businesses. **Sustainability and Local Government Procurement**<sup>7</sup> outlines how local authorities may improve the procurement process, enabling a wider range of providers into the market. Local authorities should hold "meet the buyer" days and run training events specifically for social enterprises, ethnic minority businesses and voluntary and community sector suppliers. They should publish advertisements where suppliers in those sectors are likely to see them (including on the council website). They should simplify and standardise the forms used for low value requirements. Local authorities should also constructively debrief unsuccessful bidders so that their competitiveness can be improved for the future

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<sup>6</sup> Public procurement and social enterprises, Renewal. net, <http://www.renewal.net/Documents/Overview/Local%20Economics/Publicprocurementsocial.doc>

<sup>7</sup> Sustainability and Local Government Procurement Nov 2003, IdeA.

The National Procurement Strategy for Local Government states that in England by 2006 *“every council should include in invitations to tender/negotiate for partnerships a requirement on bidders to submit optional, priced proposals for the delivery of specified community benefits which are relevant to the contract and add value to the community plan”* (page 47).

In major projects, even when there is a main or prime contractor, small suppliers will form an important part of the supply chain. The National Procurement Strategy recommends that authorities should take this into consideration when entering into partnerships. It is increasingly common to require a “supply chain strategy” to be tendered as a method statement. This typically lists the various tiers of suppliers, their roles and the strategy for managing them. It affords the opportunity for dialogue about the composition of the supply chain and how community benefits may be teased out.

**Regeneration & Renewal**<sup>8</sup> states that voluntary and community sector (VCS) organisations are certain to gain a much greater role in service delivery in a wide ranging reform of local government procurement. At a conference of the ACEVO (Association of Chief Executives of Voluntary Organisations) on the 6<sup>th</sup> of May 2004, Alan Milburn MP argued for the voluntary sector to become a key partner with government in modernising services and regenerating communities. He set out how he believes the voluntary sector can become part of the mainstream of public service delivery, arguing that over this next decade, the voluntary sector should become as integral to public service delivery in Britain as either the public or private sectors.

The government have this week launched a new programme of funding called Futurebuilders, up to 250 voluntary and community organisations, social enterprises and ethnic minority businesses are to benefit from a £125 million fund to help them bid for public sector contracts<sup>9</sup>. The programme will offer considerable loans over the next three years to help build the capacity of the sector, enabling it to deliver public services. Fiona MacTaggart, (speaking at the CLES summer school) Voluntary Sector Minister said “Futurebuilders is an important step...for an

<sup>8</sup> Loney, Nick, Third sector set for stronger role, *Regeneration & Renewal*, 7<sup>th</sup> May 2004.

<sup>9</sup> For further details see <http://www.futurebuilders-england.org.uk/>

expansion in the scale and scope of public service delivery by the voluntary and community sector”. Loans will range from £10,000 for smaller groups up to several million pounds. The scheme will be run by a voluntary sector consortium including the lead partner, Charity Bank.

## Conclusion

In the reform of local government procurement there needs to be a more strategic relationship between local authorities and third sector organisations. This appears to be high on the agenda of government, as Alan Milburn MP said last week (06/05/04) the case for a dramatic reform of public services through the voluntary sector has been made, and there is now the need for government and charities to make it a reality. This is a challenging new area for both local authorities and social enterprise/third sector, but an extremely important one. “Social enterprise should be seen not as a sideshow to the ‘real’ economy but an integral part of it”<sup>10</sup>.

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<sup>10</sup> Public procurement and social enterprises, *Renewal*. net, <http://www.renewal.net/Documents/Overview/Local%20Economics/Publicprocurementsocial.doc>