

# Social Procurement: The Business Case



**Social Procurement**

AUSTRALASIA

# Who and what is this document for?

This document explains how government (local, state or federal) can use social procurement as an efficient and effective means of achieving policy objectives in two main categories:

1. Securing targeted employment and workforce participation opportunities for a specific population group.
2. Addressing place-based disadvantage or economic decline in a particular region or area by concentrating spending in that area.

The arguments are supported by selected relevant Australian and international case studies of the benefits that social procurement can deliver.

The intended audience is federal, state and local governments:

- chief executive officers, chief operating officers, chief financial officers
- members of parliament, councillors and mayors
- leaders, managers and decision makers
- procurement, community development and economic development teams.

# What is social procurement?

Social procurement is the use of strategic procurement practice to generate social benefits beyond the products and services required. It happens when organisations intentionally choose to purchase a social outcome when buying a good, service or delivering works.

Social procurement enables governments to align multiple strategic objectives. The procurement process becomes a vehicle to address social or economic objectives, or to maximise local or regional community benefits.

Social procurement often takes the form of a local, state or federal department strategically using an appropriate procurement opportunity to generate targeted employment for a specific population group, such as people with a disability, the long-term



unemployed, indigenous, culturally and linguistically diverse groups, youth, public housing tenants, or a regional, rural or disadvantaged metropolitan area.

Interest in social procurement is growing because buyers can see the economic efficiency of using a single pool of money to achieve multiple organisational objectives. The annual estimated

procurement spend by government in Australia is \$141 billion (\$41 billion through the federal government, \$20 billion through local governments nationally and \$80 billion through the state governments nationally). The potential impact to be leveraged from \$141 billion of social procurement is enormous.

Social procurement aligns with the increasing focus of governments on whole-of-government thinking, and a more sophisticated understanding of the solutions available to government to address 'wicked' social problems.

Social and community benefits are now included in the procurement processes of a broad range of local and regional buyers, including all levels of government and diverse areas of the private sector, from multinational mining companies, to telecommunications companies and developers. A 2013 study found that 11 Australian leading ASX corporations alone directed over \$905 million to social procurement in that year.<sup>1</sup>

## Note

Procurement of social services is not social procurement; social procurement requires the addition of social benefits over and above the procurement of the goods, services or works, irrespective of the end use.



1. Bonwick, M., Daniels, M. 2014. Corporate Social Procurement in Australia: Businesses Creating Social Value. Available at, [http://www.socialtraders.com.au/\\_uploads/\\_cknw/files/WEBSTCorporateSocialProcurementinAustralia2013.pdf](http://www.socialtraders.com.au/_uploads/_cknw/files/WEBSTCorporateSocialProcurementinAustralia2013.pdf)

# How can it work in practice?

Social procurement integrates social outcomes into the requirements of a contract, alongside the goods, services or works being delivered. For example:

**Step 1** A government identifies a strategic social outcome that it is seeking to achieve. For example:

- Local government may want to create employment for public housing tenants facing high levels of unemployment
- A state government may seek to address economic decline in a specific region
- The federal government may want to lift levels of employment amongst Indigenous Australians.

**Step 2** The government identifies upcoming contracts that have the scope to create employment opportunities for the cohort that they are seeking to benefit. For example:

- The local government might include a social benefit clause in an upcoming waste transfer station contract because it provides a large number of labour-intensive entry-level employment opportunities
- The state government might identify the creation of a new road as an opportunity to ensure that local suppliers are engaged and that local job quotas are required of the successful tenderer
- The federal government might set a blanket policy for all maintenance contracts over \$10 million to include a clause requiring the contractor to engage a quota of Indigenous Australians in their workforce.

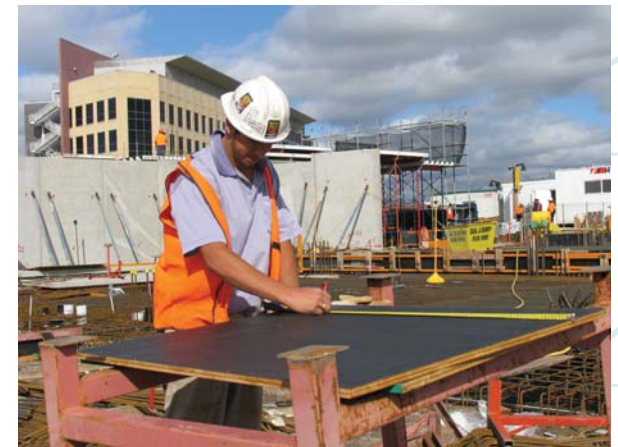
**Step 3** The contract goes out to open tender or quotation with a clear articulation of the goods, service or works and the social benefit requirements. The contractors respond to the documentation. With regard to the social benefits they could adopt the following approaches:

- Decide that they can deliver the social benefits being sought within their business and existing sub-contractors
- Identify sub-contractors that are better placed to deliver the social benefits, such as a social enterprise that employs the long-term unemployed, local SMEs or an indigenous business.

**Step 4** The appointed contractors begin work. The government department develops a reporting framework for the contract, which includes:

- Milestones and KPIs around delivery of the goods, service or works
- KPIs around delivery of the social objectives, for example, the provision of evidence of employment generated from the targeted cohorts.

**Step 5** The contract is executed, the quality is comparable with traditional procurement processes and a significant social benefit is delivered.



For a list of guides on how to integrate social considerations into the procurement process, refer to page 13.

# Bringing unemployed people into the labour market

Australia is faced with an increasing welfare burden from an ageing population, coupled with a decreasing tax base as that population enters retirement. The Australian workforce participation rate is at a seven-year low of 65 percent, and is predicted to decline to 55.4 percent by 2044–45.<sup>2</sup>

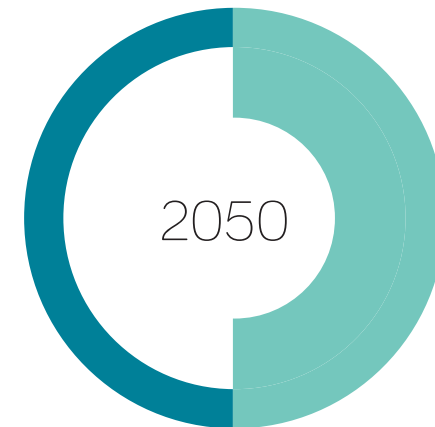
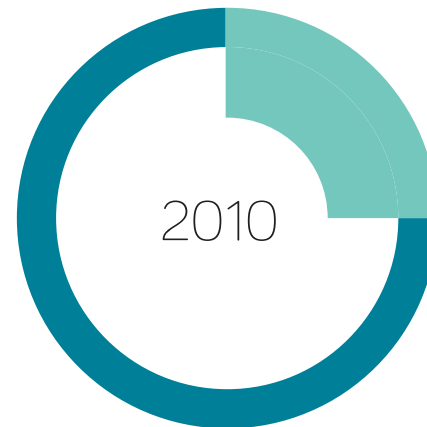
Based on this projection, the 2003–04 Productivity Commission report found that it is critical to find innovative ways to increase workforce participation and convert welfare recipients to tax payers.

Australia has 83,000 long-term unemployed and 800,000 people on the disability support pension. These two groups represent the most significant opportunity to increase workforce participation from our current population.

Many of these people want to work, but are challenged by factors including industry restructure, educational attainment, work history, English proficiency, disability, health, age, indigenous status and criminal convictions.

These groups require new approaches if we are to bring them into the workforce. Social procurement is an effective tool, thanks to its ability to mandate the generation of employment opportunities for specific cohorts of unemployed people.

Percentage of total Australian Government spending on health, age-related pensions and aged care<sup>3</sup>



2. Australian Government. 2003–04 Productivity Commission Report – Prospering in an Ageing Society, available at: <http://www.pc.gov.au/annual-reports/annualreport0304>

3. Burkett, I, drawing on [http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR\\_2010.pdf](http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf)

# Case Study

## Toowoomba Regional Council Social Procurement



In Toowoomba, the regional council worked closely with not-for-profit organisations to identify opportunities to create employment for people with a mental illness, a cohort that has unemployment rates of over 70 percent.

In 2012, having identified social enterprise as the most effective solution, the Toowoomba Regional Council awarded a waste management contract to Ability Enterprises, which now operates the gatehouses for council's 13 waste transfer stations.

Through the \$2 million contract, Ability Enterprises employs 40 individuals (80 percent of staff hours) with a disability living in the Toowoomba Regional Council area. At least half of these employees are on a government benefit program and have been out of work for ten years or more.

The contract price did not increase as a result of the social procurement but the benefits to 40 lives have been very significant.

'Many of those who work on the gatehouses have a disability and it's fantastic to see how well they've settled into their new role. The employees welcome people; direct customers to the correct areas for dumping; help people with the separation of waste and collect the information we need about the amount and type of waste entering the centres. All in all it's a win-win situation for everyone involved and I encourage any business owner who is seeking new labour to consider looking at the social procurement model.'

Paul Antonio – Mayor  
Toowoomba Regional Council

### International example



In the USA, the Javits-Wagner-O'Day Act of 1971 requires Federal Government agencies to purchase selected products and services from non-profit agencies employing people who are blind or who have other severe disabilities. The AbilityOne program is the largest source of employment for people who have severe disabilities in the US. It represents \$2.3 billion in products and services purchased by the federal government.

# Case Study

## Atherton Gardens Public Tenant Employment Program

'I have seen the transformational power of social procurement on the Atherton Gardens Public Housing Estate. Joblessness on the high rise estate (800 households) reduced from 95 percent in 2002 to 81 percent in 2008 due in large part to social procurement policies undertaken by DHS and other large buyers in the area.'

Doctor Harald Klein – Director  
Department of Human Services

Benefits (less costs in brackets)	Low effectiveness, high displacement	Medium effectiveness, medium displacement	High effectiveness, low displacement
Increased net earnings to participants	\$38 917	\$97 293	\$155 669
<i>(less lower net earnings to displaced workers)</i>	<i>(\$23 350)</i>	<i>(\$38 917)</i>	<i>(\$31 134)</i>
Higher tax revenues to government	\$7 159	\$26 844	\$57 268
Lower social security expenditure	\$13 275	\$49 779	\$106 196
<b>Total benefit per participant</b>	<b>\$36 000</b>	<b>\$135 000</b>	<b>\$288 000</b>
Present value of total <b>benefit</b> per participant	\$22 070	\$82 764	\$176 564
<i>(Program <b>cost</b> per participant)</i>	<i>(\$5 583)</i>	<i>(\$5 583)</i>	<i>(\$5 583)</i>
<b>Benefit : cost ratio</b>	<b>3.95 : 1</b>	<b>14.82 : 1</b>	<b>31.63 : 1</b>

In 2002, in response to high levels of unemployment in a dysfunctional community on the Fitzroy and Collingwood public housing estates, the Victorian Department of Human Services (DHS) introduced the Public Tenant Employment Clause into the cleaning contract on the two estates. It required that 35 percent of the labour force be made up of unemployed public housing tenants, and subsequently 15 tenants obtained full-time employment.

In 2004–05 DHS introduced social procurement into its daytime security contract at Collingwood and Fitzroy, this time purchasing from a social enterprise run by the Brotherhood of St Laurence. Tenants undertook a 12-month traineeship and were employed

as concierges. At the completion of their traineeship, they were then supported to exit the social enterprise and enter employment in the open labour market. Every year, 11 unemployed tenants were given the opportunity to work. The Public Tenant Employment Clause was extended to the maintenance contracts on these two estates and across all public housing in Victoria (with a reduced percentage of public housing tenants required to be employed).

The security contract model delivered by the Brotherhood of St Laurence was part of a cost-benefit evaluation supported Allens Consulting, they key findings which are presented above.<sup>4</sup> This table shows three projected long-term outcomes, ranging from

lowest to highest benefit, taking into consideration the effectiveness of the program and the extent to which jobs created through the program displace jobs elsewhere, rather than being truly additional.

Notably, this evaluation does not capture the savings generated in areas such as justice, health, social housing, intergenerational poverty and community cohesion to name a few. Of the 37 trainees who were employed in the first three years of the service, 85 percent completed their traineeship and went on to obtain work in the open labour market or pursue further education.

4. Mestan, K. and Scutella, R. (2007) Investing in People: Intermediate Labour Market as Pathways to Employment, Brotherhood of St Laurence, Melbourne.

# Addressing place-based disadvantage and areas facing economic decline

Social procurement is a valuable tool in addressing both entrenched disadvantage and economic decline in specific places.

The statistics for place-based disadvantage in Australia are stark.

- Of the 170 most disadvantaged areas, 52 percent are rural.<sup>5</sup>
- In many disadvantaged areas, economic restructuring and the decline of manufacturing has had significant effects on the local economic base.<sup>6</sup>
- The most disadvantaged 3 percent of Australia's localities (68 places in all) have:
  - 2x the rate of unemployment
  - 2.5x the rate of long-term unemployment
  - 2x the rate of disability support and psychiatric admissions
  - 2x the rate of criminal convictions
  - 3x the rate of imprisonment of the remaining places in Australia.<sup>7</sup>

Economic decline occurs when the amount of money flowing into and being retained in a community reduces over time. The impacts of economic decline are significant and range from reduced personal income, and the associated stresses attached to this, through to community population decline and commensurate loss of services and activities. These sorts of problems create burdens for all three tiers of government.

The antidote to economic decline is to increase the amount of money being spent and retained in a community. Social procurement can be used to directly support participation of local businesses in tendering processes and generate local employment. It allows government to directly impact on the local/regional economy.

The decline of manufacturing in already disadvantaged communities – such as recently announced closures in parts of Geelong, Elizabeth in northern Adelaide, the western suburbs of Sydney and parts of regional Australia – has sharpened the need to find new approaches to localised job creation, labour market transition and the creation of a sustainable economic future for these places.



5. Vinson, T., Rawsthorne, M., Cooper, B. A. 2007. Dropping off the edge: The distribution of disadvantage in Australia. Jesuit Social Services, Australia.

6. Pawson, H., Davison, G., Wiesel, I. 2012. Addressing concentrations of disadvantage: policy, practice and literature review. Australian Housing and Urban Research Institute, Melbourne Australia.

7. Vinson, Rawsthorne and Cooper, op. cit.



# Case Study

## Ballarat Industry Participation Program

'We were aware that local business was doing it tough and council brought forward its own mini stimulus plan where we increased our own capital program and really what we've got here is some clear economic data that this policy is working and that it is creating a large number of jobs for the Ballarat community.'

Jeff Pulford – Director of Growth and Economy  
City of Ballarat



In a sustained effort to provide stimulus to local industry, the City of Ballarat developed the Ballarat Industry Participation Program (BIPP). Through its tender and procurement process the BIPP requires purchases over \$250,000 to include a BIPP statement, detailing the level of local content; number of jobs created; and skills and technology transfer.

To encourage local uptake of the BIPP and to ensure local community and business awareness of the program, Council ran information sessions highlighting opportunities for smaller suppliers to work with big business.

Council estimates it has generated more than 340 jobs and injected more than \$38 million into local businesses, at a cost of \$150,000.<sup>8</sup>

The Industry Capability Network awarded the City of Ballarat with a Certificate of Recognition acknowledging these achievements.

### International example



Similar programs are happening internationally, often supported by legislation.

In the UK, the Social Value Act places a duty on public bodies to consider social value ahead of a procurement.

For example, Birmingham City Council used social procurement for the construction of the Library of Birmingham. The council included jobs and skills requirements as conditions in the £193 million library contract. This resulted in 306 jobs for Birmingham residents, including 82 apprenticeships. Residents of priority areas took 54 percent of these opportunities.

<sup>8</sup> Ballarat Industry Participation Program. 2013. Local suppliers benefit from Council Policy. Available at <http://www.pc.gov.au/annual-reports/annualreport0304>

# Case Study

## Gold Coast City Council

The City of Gold Coast is utilising its procurement spend to achieve social and economic development goals in relation to supporting minority and disadvantaged groups into employment, and supporting local suppliers in general.

The Council is pursuing its social procurement agenda in two specific ways:

### 1 Buy Local Procurement

Provides preferential treatment for local business in the procurement process to ensure that money and jobs stay in the local economy. In a procurement budget of \$7-800 million per annum, contracts under \$200,000 (which equate to \$250 million) are only accessible to local suppliers where applicable. Council also provides significant preference to local tenderers for works exceeding \$200,000.

The buy local initiative has been successful in increasing council's procurement spend with local businesses from 53 percent in February 2013 to 64 percent in June 2014.

### 2 Social Benefit Provider Procurement

Brings disadvantaged job-seekers into employment. A principle selection criteria in the tenderer evaluation is the participation of formerly unemployed residents in the contractor's workforce. Three cleaning and recycling tenders in 2012-13 generated employment for over 74 disadvantaged residents (45 FTE positions) who were previously unemployed. This impact was created through a procurement spend of less than \$2.5 million per annum. The three social benefit provider procurements have on average cost no more than the cost of procuring without social requirements.

## International example



Social procurement outcomes are being achieved in Europe's largest infrastructure project, the £15 billion Crossrail, which is due to open in 2018. The new railway stretches across London and will cover over 100 kilometres of track, including new tunnels and train stations.

The project is generating significant employment and training opportunities, as well as business opportunities for companies. For example, 62 percent of new entrant-level jobs were filled by people who were previously unemployed. In addition, 44 percent of the 350 people undertaking apprenticeships were not employed or had not received previous formal training, and 33 percent of the jobs were filled by women compared with 20 percent of job roles across the UK construction industry.<sup>9</sup>

## Local Multiplier Effect

Local procurement can concentrate economic benefits in a particular area of disadvantage or those in economic decline. The 'Local Multiplier 3' (LM3) methodology evaluates how local firms will re-spend in a local economy through their own spending with suppliers and labour.

The tool was first applied on a large scale within Northumberland County Council where it was shown that every £1 spent with a local supplier was worth £1.76 to the local economy, but only 36 pence if it was spent out of the area. That makes £1 spent locally worth almost 400 per cent more.<sup>10</sup>

9. NorthWest Rail Link presentation provided to the authors

10. Local Procurement: Making the most of small business, one year on, Federation of Small Businesses 2013, <http://www.fsb.org.uk/policy/publications>

# What are the benefits of social procurement to government

'Social procurement is the greatest untapped tool for social change'

Peter Holbrook – CEO  
Social Enterprise UK

Whilst government and the private sector are increasingly engaging with social procurement, many organisations are not utilising it or are under-utilising it through ad hoc implementation. There is an enormous opportunity to scale social procurement in response to some of the complex social and economic challenges we face.



Senator The Hon. Mitch Fifield presents the 'Social Enterprise of The Year Award – Large' to Clean Force Property Services

## 1 It benefits people

Ultimately the beneficiaries of social procurement practice are the people who have been given a chance to participate in the economy, and the communities they are part of.

## 2 It enhances staff satisfaction and organisational identity

The ability to achieve demonstrable community benefits through social procurement increases job satisfaction and pride amongst procurement and contract management staff in a profession often characterised by cost-cutting and compliance pressures. It also builds opportunities for effective team work across the government, thereby reducing silos within and across government.

## 3 It delivers efficiencies

Social procurement uses a single pool of money to achieve multiple governmental objectives. It is an effective means of bringing unemployed and marginalised groups into the labour market.

## 4 It drives innovation

By encouraging a holistic view of the achievement of broad governmental objectives through procurement, social procurement practice encourages innovation and the development of new forms of partnership and service delivery models within and outside of the government.

# Next steps

## how government can support social procurement

### Social procurement practice

Effectively incorporate social and economic development objectives in their own strategic procurement practices.

### Social enterprise development

Strengthen the role and capacity of social enterprises to participate in supply chains and effectively deliver jobs and employment pathway solutions for people from disadvantaged communities.

### Opportunities for business

Support the capacity of local and regional businesses to effectively participate in supply chains.

### Major projects

Contribute to social and economic development through strategic approaches to major project procurement – focusing on achieving targeted job creation, business growth and economic participation outcomes.

### Connecting the labour supply

Strengthen the networks and activity underway to support the capacity of people from disadvantaged communities to be prepared for and successfully participate in labour markets.

## Conclusion

Social procurement provides governments throughout Australia with a strategic tool that they can utilise to generate significant value at little or no cost. In doing so they will be able to solve a range of problems facing their own organisations and communities.

Social procurement requires little change in the processes or rules of procurement, but represents a paradigm shift for many government organisations; one which sees government not just as functionally

applying procurement policies, but as acting strategically in the best interests of the government, and being agents of social change.

Social procurement is not a panacea for social issues, but it can be an epiphany when governments recognise the value they forgo by not building targeted social and economic benefits into their procurement and maximising the value of that spend.

Interest is growing in social procurement, but we are still seeing only a fraction of government spending in Australia taking advantage of social procurement. Adding it to the government toolbox could help solve some of the 'wicked' problems facing federal, state and local government. In some cases, social procurement may be not only an efficient solution, but in fact the best solution to complex social challenges.

# Resources to support social procurement

There are extensive resources available to support organisations seeking to socially procure, including Social Procurement Australasia's website:

<http://socialprocurementaustralasia.com/>

You'll find social procurement case studies, guides and toolkits, as well as links to social benefit organisations that may be well suited to delivering the social procurement outcomes that you are seeking.

Social Procurement Guides have been developed for NSW and Victoria, which comfortably translate to other federal, state and local government jurisdictions.

You can find the NSW publication here:

<http://socialprocurementaustralasia.com/wp-content/uploads/2013/09/Social-Procurement-in-NSW-Full-Guide.pdf>

*Note that the NSW publication builds upon an earlier guide:* <http://socialprocurementaustralasia.com/wp-content/uploads/2013/09/Social-Procurement-A-Guide-For-Victorian-Local-Government.pdf> and toolkit <http://socialprocurementaustralasia.com/wp-content/uploads/2013/09/Social-Procurement-Toolkit.pdf>, which was developed in Victoria:

You can find more information about the Local Multiplier Effect (LM3) here: <http://www.neweconomics.org/publications/entry/the-money-trail>



# Produced by



## Social Procurement Australasia

Established in June 2013, SPA provides an Australasian Association committed to increasing the social and economic impact of procurement in Australia and New Zealand. It supports the growing demand for practical guidance, networking, and development, while building awareness and encouraging and supporting the adoption of effective social procurement practice.

As an unincorporated association, SPA relies on members to contribute to the finances and the implementation of the activities of the organisation.

For more information about how to become a SPA member: <http://socialprocurementaustralia.com/membership/>



## Net Balance

As one of Australia's leading sustainability services firms, we help organisations understand and manage their social and environmental challenges, maximise opportunities and build sustainable competitive advantage. Our services cover the full spectrum of economic, environmental and social sustainability, combining strategic advice with rigorous technical capabilities.

We work with commercial organisations from a wide range of industries, all levels of government, and make our services accessible to the not-for-profit sector through our Foundation. [www.netbalance.com](http://www.netbalance.com)

The Net Balance group includes ECO-Buy, a not-for-profit organisation dedicated to building expertise and providing independent advice in sustainable procurement and supply chains. [www.ecobuy.org.au](http://www.ecobuy.org.au)



# Key contributors

With thanks for the guidance and assistance of the following SPA members:

Chris Newman ArcBlue



Ingrid Burkett Knode



Mark Daniels Social Traders



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