

## **Building Social Enterprise through Social Procurement**

This is a background paper to develop people's understanding of social procurement and some of the barriers to social procurement in Australia. Social procurement is a powerful tool for developing social enterprise and it is in this context that the paper is framed. Widespread social procurement in Australia would rapidly accelerate the growth of social enterprises. The paper outlines some of the barriers to social procurement and how to address these.

### **A. Social Procurement**

Procurement refers to the purchasing process adopted by institutions or organisations. Social procurement is the process of an organisation choosing to purchase a service which will also provide a social outcome.

For the purpose of this discussion it is important to clarify that the letting of government contracts for the delivery of **social services** such as community health, drug and alcohol or homeless services to not-for-profits is not considered social procurement. Social procurement specifically refers to a new approach to tendering contracts that would normally

- be tendered in the open market place
- require service outcomes only

Socially procured contracts can be delivered by both for-profit businesses and social enterprises.

#### ***Case Study 1 - Public Housing Tenant Employment Clause***

*The Victorian Department of Human Services (DHS) Housing Services, uses social procurement in a range of service contracts. They have developed a public housing tenant employment clause which is inserted into \$100 million worth of public housing contracts targeting cleaning, security and property maintenance. The clause requires that a percentage of the workforce delivering the contract is public housing tenants. The proportion varies depending on the type of works and is universally below 10%. Most of this work is undertaken by commercial businesses. Since 2003 this clause has created opportunities for hundreds of public housing tenants to obtain ongoing work. The tenant employment clause is a legal clause which has now become accepted practice in DHS Housing service delivery contracts.*

#### ***Case Study 2 – DHS Vic Buying from Social Enterprises***

*DHS, Neighbourhood Renewal chooses to buy up to \$4 million per year of improvements to public housing properties using social procurement. These works are made available exclusively to social enterprises operating in Neighbourhood Renewal (NR) areas. The service specifications are identical to the specifications for commercial providers.*

*In socially procuring, NR seeks to stimulate a range of social outcomes including:*

- *local training and employment for unemployed residents*
- *community building through the development of successful initiatives that create jobs in areas experiencing high unemployment*
- *capacity building of social enterprises to grow and deliver greater social returns*
- *retaining money spent on local works in the pockets of people living in the local area*

*The social enterprises must meet the same pre-conditions and pricing requirements as any other contractor tendering to DHS. The only difference in the process is that:*

- *only one organisation is approached to quote*
- *they are required to identify the social outcomes that they will provide*

- *there is greater scope for flexibility around contract timelines*

*Procuring from social enterprise by Neighbourhood Renewal requires an exemption from the existing procurement policy by the Secretary of DHS.*

## **B. Social Enterprise**

Social enterprises are set up to meet a community need through the trading of goods and services. **A widely used definition, 'a social enterprise is a business with primarily social objectives whose surpluses are principally 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.'** UK DTI 2003

There is no such thing as a typical social enterprise, they are organic and adopt different business and social models. Some are very commercial and resemble for-profit businesses in all areas except for their governance or profit distribution models. At the other end of the spectrum are social enterprises that are trading entities delivering significant social benefits, often more than those delivered through government funded programs. Social enterprises are some times identifiable under other names such as cooperatives, community buy-outs, credit unions, social firms or community enterprises.

Social enterprises exist for a range of reasons, including :

- providing jobs for the long-term unemployed and those with disabilities,
- retaining or providing needed goods and services
- achieving environmental benefits
- revenue raising for charitable organisations

There are very few industries and sectors where social enterprises are not operating. They operate in agriculture, fishing, food processing and finance, energy provision, manufacturing, recycling, hospitality, horticultural, construction and IT services, just to name a few.

Some of the best known social enterprises in Australia include the Bendigo community banks, Jamie Oliver's Fifteen Restaurant, 'Vinnies' stores, The Big Issue and Sanitarium Foods. Many social enterprises are small businesses and are not particularly well known.

### ***Case Study 3 - The Yackandandah Community Development Company***

*YCDC was established in 2001. It was developed in response to the only petrol station in Yackandandah losing money and closing down. The nearest petrol station was 30 minutes drive away and the loss of the petrol station would not only be expensive and inconvenient but it would also contribute to the decline of the whole community as money flowed out and confidence declined. The community held a share float and was able to raise enough money to build a new petrol station, with over half of the members of the community becoming shareholders. YCDC has been able to achieve a profit every year since it began operating. The business has paid shareholders dividends as well as reinvesting half the annual profits in local community projects.*

## **C. Why is social procurement important to social enterprises?**

Social enterprises typically respond to needs that are not being fulfilled by mainstream markets or government programs. Social procurement stimulates markets for social enterprise goods and services, supporting their financial sustainability through purchasing rather than handouts. Social

Procurement is driven by similar values to social enterprise. Social procurement tilts the playing field in favour of social enterprises by:

- providing easier pathways to contracts
- recognising the full cost of service delivery
- growing social enterprises, improving their ability to compete with for-profit providers in other markets

Social Procurement is an opportunity to maximise the value generated through contracted services. It is a paradigm shift in thinking.

There is a large group of new and emerging social enterprises that have been developed to deliver high social returns. These organisations struggle to compete on a level playing-field with commercial operators due to

- the higher operating costs of delivering high social returns
- the limited business history of many social enterprises
- the need to develop capability

Social procurement is a foot up for these businesses and is a critical plank in the expansion of social enterprises and the benefits they deliver.

It is worth noting that not all social enterprises would benefit from social procurement, there are many examples of robust social enterprises that have become strong by competing well in the open market place.

#### **D. How do you socially procure?**

There is no hard and fast model for social procurement. The opportunities run across a spectrum, from:

- purchasing via a social tender process open to the market
- purchasing via a social tender process in a closed market of social enterprises
- purchasing via a single social enterprise quote, embargoing work
- inserting a community benefit clause in contract, a method gaining traction in the UK
- partnering to develop or grow a social enterprise

Some purchasers are strong supporters of social enterprises and examples exist where purchasers:

- pay premium prices for social outcomes
- are actively involved in building the social enterprises
- invest in the enterprise
- work closely together at start up of the contract to ensure that the enterprise understands how to meet expectations
- sharing the operating risks with the social enterprise

#### **Case Study 4: Community Interest Clauses**

*The Community Interest Clause is being used by government to socially procure in the UK. Community Benefit is one of a range of social clauses that can be included in public contracts. In order to form part of the criteria for awarding contracts, community benefit clauses must be included as a core part of the contract specification i.e. where a contract may be for construction, training and recruitment community benefit elements need to be included as part of the specification.*

#### **5. Who is already socially procuring?**

There are many organisations socially procuring in Australia. They include community sector organisations, state governments, local governments, corporates and SME's. The buyer understands that they are purchasing more than a service.

Most organisations that are socially procuring do not have a social procurement policy. They are putting a toe in the water, usually on the basis of established relationships and/or ideological convergence. In some instances it is easy to socially procure, in other situations corporates and government in particular, have required exemptions from organisational and legislative policies in order to socially procure.

#### **Case Study 5: Commonwealth Social Procurement**

*In December 2008 the Australian Department of Family, Health and Community Services re-branded the sheltered workshops in Australia as Australian Disability Enterprises (ADE's) and has changed Commonwealth procurement guidelines to make it easier for ADE's to obtain Commonwealth work.*

#### **E. Examples of organisations socially procuring?**

Attached is a list of organisations that chose to socially procure from social enterprises run by the Brotherhood of St Laurence in Melbourne in 2007/08. The contract areas included landscaping and grounds maintenance, concierge services, cleaning, energy retrofitting and street cleaning. Between 2004 and 2009 these contracts grew to \$3million per year, all socially procured.

- Victorian Department of Human Services
- Sustainability Victoria
- City of Maribyrnong
- City of Yarra
- Lend Lease
- Grocon
- Adult Migrant Education Services
- Brotherhood of St Laurence
- North Yarra Community Health
- Victorian Aboriginal Health Services
- Jesuit Social Services
- Homeground
- Yarra Community Housing

#### **Case Study 6: Brisbane City Council**

*BCC is the first Local Government in Australia to develop a social enterprise procurement policy. This policy is in the process of being formalised within Council and has required an amendment to the Queensland Local Government Act. The Council is able to socially procure up to 1% of its operational budget of \$2 billion. This work is the culmination of a history of innovation in social enterprise by BCC over a period of 10 years which led to this innovation. A model like this applied across local government in Australia would result in well over \$100 million in contracts.*

#### **F. What are the factors restricting social procurement in Australia?**

All things being equal, people will usually purchase a product that promises to do something good with its profit. This has been particularly evident as consumers have become educated about climate

change, organisations now see being 'green' as a marketing strategy. Similarly, the fair trade movement has made significant headway internationally by identifying social benefits to the producers of their products in third world countries. The 'marketing the cooperative advantage' research in Canada in the 1990s found clear evidence of preferred consumption where customers were made aware of cooperatives. Consumers not only like these products but they will often happily pay a premium for these goods and services. There is a strong social awareness amongst consumers.

Motivations for consumer buying and organisational buying differ. Consumers may place values on purchases that organisations would not. Institutional (organisational) procurement is generally driven by processes that are put in place to avert corruption, ensure value for money and minimise risk. In the case of government purchasing, public accountability requirements play a significant role in determining purchasing policies. Very few procurement processes attach any importance to social outcomes.

The barriers to procuring from social enterprise are many and varied.

- Procurement policies are designed to ensure probity, government procurement policy is mandated by acts of parliament. Significant changes to policy require real impetus.
- The motivations for institutional/organisational procurement have traditionally been driven by economic and risk factors
- Many organisations face significant silos between social units (whether social policy divisions in gov or community affairs divisions in corporate) and purchasing departments
- People don't know what social enterprise is, from Board and CEO level right through to procurement officers
- Procurement decisions tend to be measured based on inputs and outputs, social procurement brings the added dimensions of impact and outcomes, which are harder to measure.
- Some organisations that want to socially procure have not been able to find organisations able to provide that service or the quantity of service or product that is required.
- Most significantly however, is the concern that the social enterprise will not be able to provide the desired quality, at time and on cost. In some cases these are legitimate concerns and there is a need for social enterprises to build a reputation for reliability and perhaps meet certain standards through an accreditation process if they intend to win work.

Each of these issues needs to be addressed. There are some that will be addressed through legislative change, through promotion and through an education campaign about social enterprise to develop the Demand side. On the Supply side a lot of work needs to be done to build the capacity of social enterprises and to ensure that these organisations are robust and reliable.

#### **G. What needs to be done?**

- **The existing examples of social procurement in Australia need to be identified and highlighted, particularly best practice.**
- **There is a need to mainstream social procurement thinking so that it is supported by policies and not just relationships and discretionary decisions.**
- **There is a need to run pilot projects exploring the issues around social procurement, the ways of procuring, outlining the process and the benefits. These pilots could be undertaken with government, a corporate and a community organisation.**

- **There is a need to change policy, freeing government and corporate procurement up so that they are able to socially procure as part of normal practice. This should be done through an advocacy campaign.**
- **There needs to be an education campaign around social enterprise at the CEO level and at the procurement manager level. At the procurement managers level this should include guides and training on how to socially procure.**
- **There needs to be guides and education for social enterprises on how to win socially procured contracts.**
- **Organisations seeking to socially procure need to know that the social enterprise is capable of delivering the service requirements at the quality, timeliness and price required, that it is a going concern and that it has all of the insurances and qualifications required to undertake the work. There needs to be a process of accreditation or a clearing house which is able to verify the capability of a social enterprise to deliver a contract.**
- **There needs to be a directory to social enterprises so that they will know what is out there**