

From the Ground Up – Improving the Delivery of Social Value in Construction

Summary of Findings and Key Recommendations



Acknowledgements

The IED is extremely grateful for the support of its partners and supporters, without whom this body of work would not have been possible.

By producing this report in conjunction with a diverse range of organisations involved in construction from across the UK, we have brought together a range of experiences of social value in the procurement, design and delivery of development projects and programmes, as well as specific skills in research and economic modelling.

The research skills and embedded socio economic expertise of the core team and authors, coupled with a range of insights from across a wide range of organisations, was essential in ensuring a robust and thorough exploration of the contemporary challenges we face in embedding greater social value outcomes in the UK construction industry.



The Institute of Economic Development (IED) is the leading United Kingdom organisation for economic development practitioners. The IED is committed to demonstrating the value of economic development work for local and regional communities; the pursuit of best practice in economic development and the attainment of the highest standards of professional conduct and competence.

Contact: Bev Hurley CBE
bev.hurley@ied.co.uk / 07710 147545

Co-authors with the IED

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Contact: Maria Vitale
maria.vitale@arup.com / 0117 240 5320

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Contact: Leanne Kelly
leanne.kelly@atkinsglobal.com / 020 7121 2678

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Contact: Mike Saunders
mike@commonplace.is / 0203 553 1990



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Contact: Mike Hawking
Mike.Hawking@jrf.org.uk / 01904 406262

Collaborators and Supporters

CECA NW

Paul Gallagher, Mace Dragados

Dr Deborah Harrison

Supply Chain Sustainability School

Useful Projects

YTKO

Foreword from the Chair



Bev Hurley CBE
Chair, Institute of Economic Development

Economic development is a process by which the economic, political and social well-being of its people is improved. Economic growth, a phenomenon of market productivity, innovation and confidence, is one side of the process. Improvement in welfare values — the well-being of the population — is the other.

We have seen that the historical focus on trickle-down economic growth models doesn't work. The levels of inequality within the UK are high, entrenched, and steadily increasing. This is clear on almost every measure, be that child poverty, housing, education, mobility, health, wealth and productivity.

Encapsulating this, Office for National Statistics (ONS) 2019 figures show that around a third of the population live in the 10% most deprived areas. In these 'left-behind' places, nearly one in four people suffer with a long-term illness, life expectancy on average is 16 years less than those in more prosperous areas, over a third have no formal qualifications and there is on average half a job per working age person. We are one of the most unequal economies in the developed world.

The Institute of Economic Development (IED) wholeheartedly endorse the findings and recommendations in the Marmot 10 Years On Review and from the UK2070 Commission, Make no Little Plans - Acting at Scale for a Fairer and Stronger Future. It is time for a different approach.

Doing things differently means changing how we measure the value of our place interventions to take into account what matters to the stakeholders in them, and to consider how we can achieve more wellbeing improvements and a reduction in inequalities for every public pound we spend. Social value procurement must be a much more effective tool for change.

This means putting people at the centre of place-based development, engaging and working with them to understand their needs and wants, so that development happens with them, not to them. We don't just have to change what we do, but how we do it. Indeed, as the Department for Digital, Culture, Media & Sport (DCMS) has said, "the public sector cannot afford to not maximise social value during procurement, otherwise the cost is absorbed elsewhere in public services."

We chose to focus on the construction sector for our research as it provides the 6th largest source of employment in the UK, is a major recipient of public spending, contributes nearly 7% of our GDP, and the sector is central to economic development and what happens in placemaking. We are also in a decade of some huge infrastructure and construction projects, including Hinkley Point C, Nugen, and HS2, with a total estimated construction spend of £500bn by 2030 according to the HM Treasury and Infrastructure and Projects Authority,

The aim of this research was to help IED members, and the public sector more widely, understand what good practice social value looks like, and improve the social impact of their procurement. We wanted to discover what had changed as a result of the Social Value Act, to uncover the barriers and challenges, and to find and share examples where innovative, replicable and impactful social value had been delivered at all stages of place-based interventions as a result.

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We discovered that we are a very long way from that social value nirvana; the challenges and barriers are significant in this sector. We recommend how they can be overcome; and the opportunity for change is immediate, huge and ours for the taking.

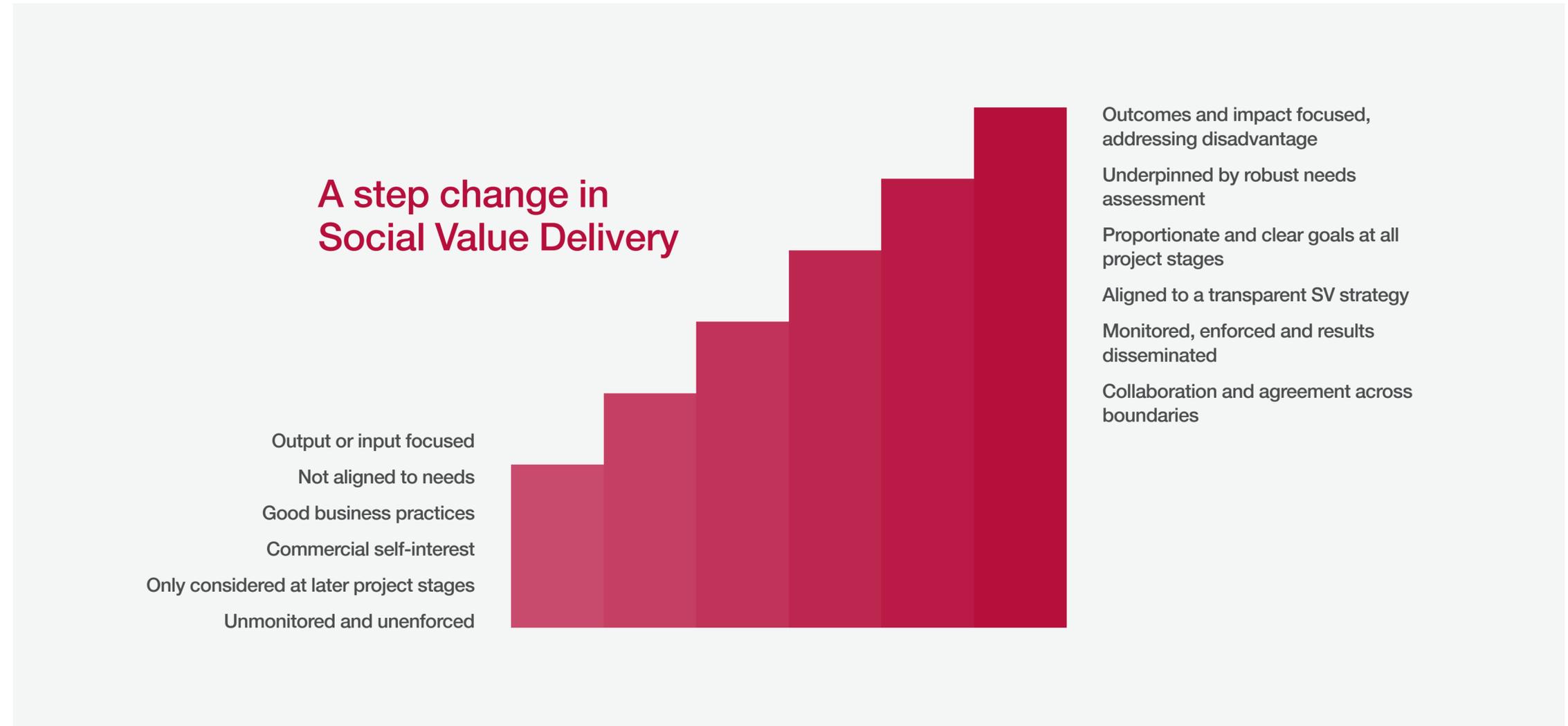
If every one of those pounds had to deliver double, quadruple or ten-fold the value in social benefit focused on making a real difference for our disadvantaged citizens and our left-behind communities, we can start transforming both individual lives and our economy. Social Value must be at the heart of our Covid-19 recovery planning and our local, regional and national strategies for tackling inequality.

Summary of findings

There is increasing awareness of the concept of social value, and the social value 'space' has a multiplicity of stakeholders, including residents, businesses, policymakers, all tiers of the public sector, and deliverers of all kinds from multinationals to Small and Medium Enterprises (SMEs) to specialist third sector organisations.

However, there is not a common, comprehensive definition of what counts as social value, to frame understanding, benchmarking or reporting, and aid comparison of tenders and to determine best practice. This has given rise to significant disparities in what counts as social value activities, and no requirement to focus on improving the wellbeing of those who are most disadvantaged.

Much of what is treated as social value can be seen as good commercial business practice. These include attracting/retaining staff, prompt payment codes, internal equality and diversity programmes, fair pay, training of the supply chain, ethical/low carbon sourcing, managing risk/noise, and increasing awareness of the construction industry as a career choice for young people. It is hard to argue that these provide additional benefits to those living in project areas. There is a high risk of social value becoming too diffuse and lacking focus. ▶



Summary of findings

There appears to be an increasing focus on the idea of “Social as Local” with procurement requirements for local spend. Keeping money in the local economy can contribute to driving positive local economic and social outcomes such as more jobs, higher pay and more tax and rates revenue.

However, simply requiring money to be spent within a certain area does not of itself guarantee that employers will pay higher or Living Wages, or employ or train more, or more local, people, nor that they will not spend any additional profits outside the area. Indeed, local spend may distort the market by propping up otherwise unsustainable requirements and do nothing to target spend on improving the social outcomes for those who most need it and build delivery capacity and capability outside existing supply chains.

Defining local is particularly challenging in builds not near residential or business areas, and in large infrastructure and cross-boundary projects. Our respondents reported that projects spanning geographies have multiple project stakeholders often competing for social value outputs, different frameworks with differing social value requirements, and a real lack of alignment around desired benefits and outcomes.

Social value procurement weightings vary and are increasing, but activities largely come into play only at the construction phase and are not consistently incorporated at all stages, especially in design briefs and business cases. There is little evidence of either pre-tender dialogue and consultation, or of robust prior community engagement. This can result in a misalignment of activities and local needs, and unrealistic or irrelevant targets.

At each stage of our research, the need for a move from a transactional, pure-procurement focus to a much more relational, co-creation approach was frequently repeated.

Both the public sector and industry identified many challenges to the successful delivery of social value, with consensus on one of the biggest barriers - the lack of understanding on what social value is.

Creating a better world through addressing our inequalities and disadvantage must entail public, private, third and civic society coming together to achieve the greater good.

Both the public sector and industry identified many challenges to the successful delivery of social value, with consensus on one of the biggest barriers - the lack of understanding on what social value is. This is why a definition, at least for the construction sector, is so vital: it is the starting point for everything that follows.

Much social value delivery is passed down the existing supply chain, often working in partnership with a wide variety of local organisations, including the voluntary and community sector (VCS). The most reported benefit of these partnerships was improved social outcomes, but at the same time, they come with significant challenges. These include commercial and financial issues and a lack of both capabilities and capacities to deliver and be an effective partner.

There was no evidence of any support being provided to overcome these skills deficits in the VCS, and little support other than occasional Meet the Buyer days for local SMEs outside the supply chain, both of which would improve the resilience and performance of local economies and leave a more enduring legacy.

Small businesses perceive that procurement is loaded in favour of large organisations with dedicated resources and more capacity to absorb cost, and that lack of adherence to Prompt Payment Codes throughout the chain has a significant negative impact.

Our research indicates that there are also substantial improvements that need to be made in the monitoring and evaluation of social value. To put it simply, it does not often happen, it is not done consistently, and rarely are contractual penalties enforced. Given that multi-million pound contracts can be won and lost on the percentage weightings given to social value activities at procurement stage, improving the robustness, transparency and accountability at the other end of the process is a priority to improve the return on social value investment.

A plethora of definitions, tools and frameworks for social value measurement are in use, with variations on what is measured and how it is monetised. However, they are largely focused on outputs not outcomes, and outputs delivered elsewhere (e.g. through offsite manufacture) are not captured. Moving towards an outcomes-based approach will help to ensure that impacts are the main focus of social value delivery, and focus social value activities on making a tangible change for disadvantaged people and left-behind communities.

The Green Book needs improving with respect to social value in business case preparation. A lack of knowledge of how to monitor and evaluate, and a lack of resources, (financial and people) were the most cited barriers by both sides. Without the resources to ensure accountability and impact, there is a risk that social value activities simply become a numbers game at bid stage. Mandatory reporting on social value by both procurers and suppliers will significantly increase the ability to benchmark performance and the sharing of good practice.



Our full report [From the Ground Up - Improving the delivery of social value in construction](#), and case study pdf are available [here](#)

Key recommendations

1. Establish a Construction Social Value Centre of Excellence

The Centre will work collaboratively with industry and public sector bodies to help define social value, provide thought leadership, support and guidance, be a repository for social value reporting data, benchmarking, monitoring and evaluation, develop a kitemark, provide guidance on evaluation tools, and support the collection and dissemination of good practice case studies.

We recommend this be funded by government, in the same way that Be The Business and the What Works Centre are - the return on investment to be gained will far outweigh the cost. Such a Centre will increase communication, knowledge, understanding and collaboration and help defragment a complex, competitive, confusing marketplace. It will provide a longer-term perspective to help all learn what good practice looks like in terms of outcomes, legacy and impact, and who delivers it - a procurement memory.

2. Agree a definition of social value, and what activities are within scope, for the construction sector

This is essential to allow robust comparisons of value, and help ensure that social value requirements are proportionate and appropriate, and provide measurable additionality.

We recommend that environmental components are separately weighted in procurement, and that good business practices (e.g. internal diversity/inclusion initiatives, prompt payment codes, training of existing supply chains, modern slavery, managing noise or disruption) should be considered as a given. Activities which may be commercially beneficial to the supplier, such as apprenticeships and educational visits, could be considered as social value if supported by a robust needs analysis in the area.

3. Update the Treasury Green Book, the Social Value Act and initiate mandatory reporting

Improve Treasury guidance on the monetisation of social value metrics and enable the assignment of different financial values to social value activities according to different areas. Social value must be considered in relevant aspects of the Five Case model (such as the economic, commercial and financial cases) so that it is considered in the early stages of the project lifecycle.

New rules should allow the social value delivered outside of a project area to be included in business case and procurement calculations and incentivise the procurement of outcomes, not outputs.

Authorities should be required to create a social value plan as an integral part of their economic development strategy, based on a needs assessment to provide one context for all bidders, and to monitor and report annually on social value outputs and outcomes, including their cost effectiveness. Local Industrial Strategies and Covid-19 local recovery plans must also give due consideration and action to social value and impact.

4. Upskill the public and private sector

The Centre for Excellence should work collaboratively to offer Continuing Professional Development (CPD) on all aspects of social value, from defining a strategy, embedding it in procurement and at all stages of project lifecycles, and understanding the tools to assess social value components, through community engagement, local spending, pre-tender consultation and education about modern construction, to monitoring, evaluation and legacy.

There is a need, especially in cross-boundary infrastructure projects, to increase collaboration, political leadership and to develop a clear framework for social value delivery. Greater understanding and clarity of what social value is, how to procure it more effectively, and how to achieve better outcomes, will improve capacity, capability and impact.

5. Upskill those not in the Supply Chain: SMEs and VCS organisations

Considering the growing impetus towards local spending requirements, we recommended that industry must help improve local SMEs and VCS organisations' ability to compete, to deliver and to grow, and by doing so, leaving a more enduring local legacy. Improving their capacity and capability will extend beyond just the construction industry.

Industry must ensure that prompt payment codes are adhered to at all levels of the supply chain, particularly at the bottom where the pressure of late payments is felt most.

Public authorities should provide information and contacts at pre-tender stage of businesses and community organisations who might be utilised for the delivery of social value.