

CREATING SOCIAL VALUE

THE ROLE OF THE WASTE AND
RESOURCE MANAGEMENT INDUSTRY

Prepared by



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FOREWORD

The waste and resource management industry provides essential environmental services for householders and businesses alike, helping the UK to meet important objectives to create jobs, harness green energy and maximise the use of valuable resources.

The industry increasingly sees the benefit of engaging more closely with the communities it serves and this includes making the most of opportunities to add social value to its services.

SITA UK commissioned this report to understand more closely the emerging social value agenda and its impact on our industry through the duties it places on the public sector to consider social value in commissioning and procurement of services. It could significantly impact the way we work with third sector organisations and with local authorities.

We need to understand more clearly the ways in which the industry already adds value to communities through its activities. In the future, we must work in partnership with others to find innovation and efficiencies to keep our local authority services relevant in these challenging times and ensure that the full social and environmental value of our services is recognised.

David Palmer-Jones

Chief Executive Officer
SITA UK

For many it is a 'no brainer' that public expenditure should achieve as great an impact as possible in delivering better wellbeing, yet it has not been obvious that this is how commissioning and procurement is in fact conducted. So, it is amazing that the Public Services (Social Value) Act 2012 is in fact now law and it is encouraging just how much it is stirring the imaginations and strengthening the resolve of all those who want to see the widest possible benefits for people at a local level.

This report adds to the debate in this arena and I particularly welcome its application to working through how social value can be optimised in the waste and resource management industry. I always think that it is important to ground the outworking of social value in tangible issues and this report points to some good examples.

Our interest is in seeking ways for social enterprises and civil society organisations to be engaged in delivering community benefits in the world of resourceful collaboration. This requires a re-alliancing of all those involved in partnership between the public, private and third sectors. We all have a role to play in promoting training and employment opportunities, stimulating socially-conscious markets, contributing to health improvement opportunities, mitigating climate change, and enabling more effective and efficient public expenditure. Together, we just might!

Mark Cook

Chair of REalliance

EXECUTIVE SUMMARY

There is increasing pressure upon local authorities with diminishing financial resources from central Government to find ways to maximise the efficiency of public services, reduce costs and identify all possible ways of adding value to services.

The UK waste and resource management industry partners with local authorities to provide waste and recycling collection services, split between in-house services (direct service organisations) and private sector provision. In some instances, the third sector is contracted directly by local authorities, but often they provide a service in partnership with a private sector provider.

The concept of social value in public services has existed for some time, but has increased in prominence as a result of new legislation that requires local authorities to consider social value at the point where services are commissioned and procured. The Public Services (Social Value) Act 2012 has the stated desire to open up more public services for potential delivery by the third sector, community and voluntary organisations.

This report agrees with this desire and notes that in the waste and resource management sector, opportunities exist to realise social value by seeking greater collaboration between the private and third sectors, in addition to those sectors delivering services directly. We note that in the waste and resource management sector, the contribution to social and environmental value of the private sector is already significant, but not fully quantified. More work is needed to do this and communicate it to our customers in local government and the wider community. Consistent and clearly agreed methodology is needed to quantify social value from public service tenders and contracts, whichever sector delivers them.

Despite the varied approaches to measuring social value, the report has built on research conducted previously for the Department for Environment, Food and Rural Affairs (Defra) and the Waste and Resources Action Programme (WRAP). Using projections for future local authority waste services procurement, we have estimated that:

- + As the industry moves towards the circular economy, increases in employment from the movement of formerly unemployed people into employment in the waste and resource management sector could generate an **additional £600 million in social value** by 2020.
- + Third sector organisations, often working in partnership with the private sector, could increase their contract value share in local authority collection contracts under the provisions of the Public Services (Social Value) Act 2012. An increase from the current 0.25 per cent share to a third sector average two per cent share across all public services could deliver an **additional £26 million in social value** annually.
- + If a greater proportion of this increase in contract value share is assigned to re-use projects, which make up the largest proportion of third sector provision, this additional **annual social value could reach £54 million**.

It is clear that the potential impact of the Public Services (Social Value) Act 2012 is strong, not just in local authority waste and recycling services, but more broadly across public services. In the waste and resource management sector and for local authority waste managers, it could have far reaching effects on the way they commission and procure services, as the Act requires councils to demonstrate that social value has been considered in procurement and, if not, there are opportunities for community challenge.

Key to the success of establishing social value thinking and commissioning in local authority waste management departments will be the provision of consensus-based and clear guidance for local authorities on how to identify and measure social value in their service provision.

INTRODUCTION

We know that we live in a time of scarce resources. The global recession caused by the financial crisis has led to a period of reductions in public spending to try to reduce debt. The public sector is more resource constrained than it has been for decades. It means that wherever we can, efforts must be made to maximise the value obtained from every pound of public spending.

At the same time, we are increasingly recognising the need to value more seriously the material resources we extract, consume and then dispose of. There is increasing concern about resource security, using resources efficiently and wisely to gain the maximum value possible from their use and re-use.

SITA UK and Ray Georgeson Resources have worked together in this report to examine the relationship between these issues, and look for the potential that we believe exists to make the best use of our scarce resources in every sense – to examine how the public sector in straitened times can work with the waste and resource management industry and the third sector to build more social value into the public procurement of waste and recycling services.

The report seeks to establish the social value that the waste and resource management industry already brings to its delivery of public services, and also seeks to identify the potential for greater partnership working with the third sector, social enterprises and local communities to build more social value into the delivery of the waste and recycling services that we all need.

Our approach was to scope the potential with an invited group of experts from across the spectrum of social enterprise, academia, industry, the public sector and non-governmental organisations.

We started a discussion using the ideas of shared value popularised by the Harvard Business School, but then used the thinking generated by this group to focus the research more closely on the idea of social value. We then combined our literature review with the production of an assessment of the potential of the waste and resource management industry to contribute more significantly to adding social value in the communities they serve, either directly or in partnership with the third sector.

We make several recommendations for action at the conclusion of the report – for Government, for the private sector, for local authorities and for the third sector.

FROM SHARED VALUE TO SOCIAL VALUE

In developing our ideas for this project, our starting point was the concept of ‘shared value’ introduced by Professor Michael Porter and Mark Kramer of Harvard University’s Business School and Kennedy School of Government¹, defined as...

“... policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.”

Porter and Kramer have concentrated on what they see as the connections between societal and economic progress being developed to “*unleash a wave of innovation and [global economic] growth*”, identifying three key ways in which this can be done: reconceiving products and markets, redefining productivity in the value chain and enabling local cluster development. It is a concept that has been embraced by a number of major global companies² that are adopting initiatives to create shared value opportunities.

Our original thesis was to test Porter and Kramer’s thinking on shared value and see how it might be applied to the waste and resource management industry in the UK. We convened a discussion panel of leading experts from across a range of sectors – from social enterprise, academia, industry, the public sector and non-governmental organisations – all of whom have interest and knowledge in the fields across the disciplines of corporate social responsibility, environmental management, economics, sustainability, communications, waste management operations and the third sector. It provided a vibrant and challenging grouping to discuss the ideas of Porter and Kramer, whilst seeking to answer the central question – ‘How can we create shared value in the waste and resource management sector?’.

A key element within the concept of shared value is the extension of the notion of ‘value’, to encompass both economic and social aspects. As their definition makes clear, Porter and Kramer point to a boost to a company’s financial bottom line were the company to adopt a business model that incorporated improvements to the ‘social conditions’ of communities hosting a company’s plants or buying its products – a mutually beneficial relationship in which added value created by the business (in social terms) is shared by the corporation and the community.

¹ Michael E Porter and Mark R Kramer (2011), Creating Shared Value. How to reinvent capitalism – and unleash a wave of innovation and growth, Harvard Business Review, Jan-Feb 2011.

² Porter and Kramer cite examples such as Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever and Wal-Mart.

Our group of experts came to a noteworthy consensus. Although not dismissing the validity of the case for a shared value approach by business, their conclusion was that this model nevertheless had limitations:

- + It was seen as an extension to existing corporate social responsibility ideas which, while they do generate benefits to society, often also establish a dependent relationship between corporation and community recipient of corporate social responsibility activities.
- + Tying a commitment to enhance social conditions to a company's business model was risky. If the financial outcomes did not align with the expectations of the business model, the social dimension could be abandoned and the business model itself could lose credibility and purchase over time.
- + Whilst not denying that any investment, be it by the private sector or by governments or the third sector, needed to be managed in a businesslike, cost-efficient manner that maximised outcomes per unit of investment, implicit in the shared value concept is a quid pro quo balancing a community good against a company's bottom line. This did not sit comfortably with the group, especially in relation to procurement of community services by the public sector.
- + Shared value appeared to exemplify a top down approach to community good – i.e. an engagement initiated and controlled by the corporation. As such it seemed to shortchange a more participatory approach to social engagement, with communities regarded and treated as equal partners in a particular local initiative or enterprise.
- + As a concept, shared value was difficult to scale up or to integrate into strategic public sector programmes for social improvement, since it relied on individual businesses 'doing the right thing', and on the robustness and resilience of their business models. Forward planning in the business sector was generally over far shorter timescales than strategic planning in the public sector, potentially leading to a mismatch in the commitment of funds.

The discussion turned to the desirability of a social model that "*advanc[ed] ... social conditions*" without the need to be tied to a specific business model. Taking this idea forward, the group introduced into the discussion the developing ideas around social value, in particular pointing to the establishment of this on the political agenda as a means of influencing public procurement to deliver greater social benefits in conjunction with public service contractors. Specifically in the context of the waste and resource management industry, this was seen as a prospect with greater potential for adding more in benefits to communities from the resources that they generate from waste and recycling.

Set alongside the potential for the circular economy and developing green economic growth through waste and resource management³, the recommendation to us was to rethink our basis for the research and examine the concept of social value from public procurement as a more balanced, sustainable alternative to corporate social responsibility and shared value approaches.

This took us to the emerging political agenda on social value and in particular to the work in Parliament to introduce new duties for the public sector to consider social value in the purchase of goods and services.

³ SITA UK's report *Driving Green Growth: The role of the waste management industry and the circular economy* (2012) examined the potential for job creation through better resource management (<http://www.sita.co.uk/downloads>).

WHAT IS SOCIAL VALUE?

Under a contractual arrangement such as that between a waste management service provider and a public body, 'value' has typically been interpreted as the financial cost of the contract relative to the scope of the service offered (value for money), and additionally for the service provider, the financial return on investment. At the same time, 'social' value has generally been regarded as pertaining to services offered directly to socially-disadvantaged individuals and groups by charities and other community-based organisations.

The past two decades have seen both a broadening and a confluence of these two poles. Firstly, 'value' is now interpreted as incorporating, in addition to the cost of the contract and its financial returns, the wider social and environmental impacts that result from (and are increasingly built into) the delivery of the contract. As defined by the think tank, DEMOS⁴...

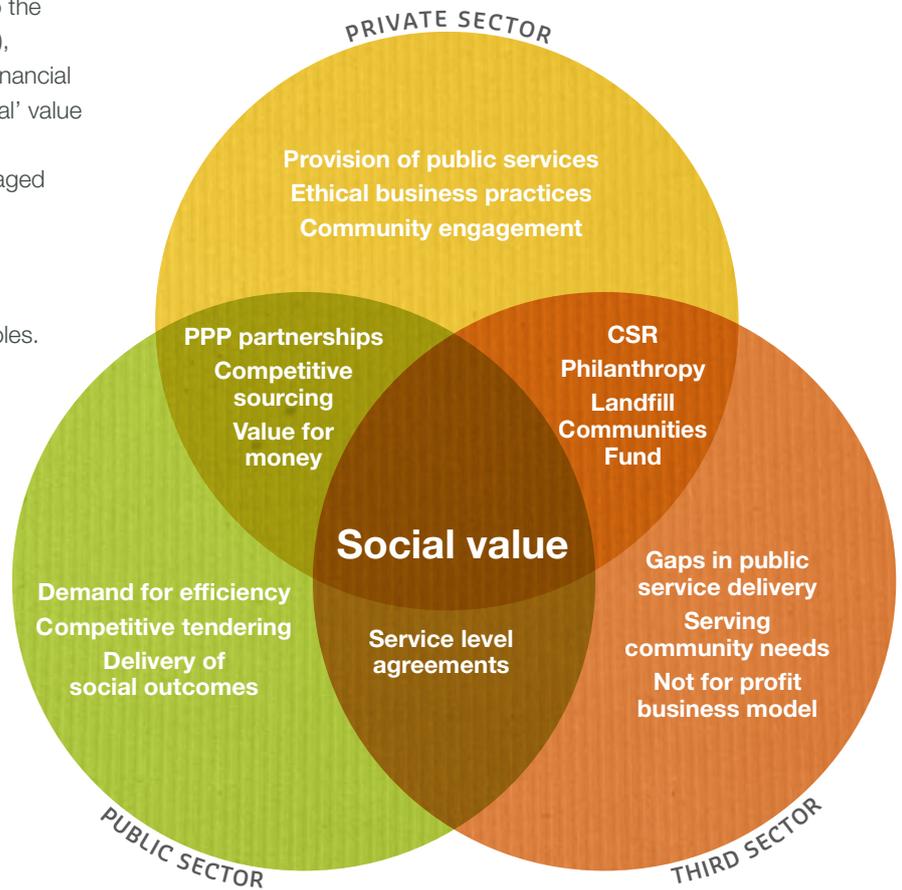
"... 'social value' refers to wider non-financial impacts of programmes, organisations and interventions, including the wellbeing of individuals and communities, social capital and the environment."

This has led to the development of a management tool called social return on investment (SROI) which...

*"... is a framework for measuring and accounting for this much broader concept of value; it seeks to reduce inequality and environmental degradation and improve wellbeing by incorporating social, environmental and economic costs and benefits."*⁵

The Cabinet Office Guide emphasises that "SROI is about value, rather than about money. Money is simply a common unit and as such is a useful and widely accepted way of conveying value". Governments both in the UK and overseas are encouraging the use of social return on investment tools alongside traditional financial models when evaluating bids for public services, while corporations are increasingly measuring and reporting on the social value their businesses are creating as part of their sustainability commitments.

THE SOCIAL VALUE INTERFACE ⁶



Traditionally, third sector and community groups have tended to provide services directly to the public, mainly in the realm of social welfare. The early 1990s saw a radical shift in the way delivery of public services was perceived, with the recognition that partnership working – where the public sector worked with commercial and third sector delivery bodies to achieve a delivery outcome – could dramatically improve the cost-effectiveness of the service, in financial as well as in social terms. DEMOS states that the government now accounts for one-third of the third sector's total income and around 27,000 charities (a quarter of the third sector) rely on it for over three-quarters of their funding.

⁴ DEMOS (2010), C Wood and D Leighton, Measuring Social Value: The Gap between Policy and Practice.

⁵ Cabinet Office (2009), A Guide to Social Return on Investment.

⁶ Source: Entrepreneur's Toolkit for Social and Environmental Entrepreneurs.

While the involvement of the commercial sector in providing local authority waste management services is now commonplace (about 50 per cent of the household waste collection service is contracted to the private sector), the involvement of the third sector is less well established and more variable.

The In House Policy Consultancy⁷ estimated that the third sector received an income of about £100 million per annum from waste related activities, updated in 2009 to £133 million, which amounts to about six per cent of the total economic value of local authority contracts in waste management. Weaknesses cited included the small scale and perceived instability of many third sector organisations, lack of business skills and short-term, intermittent funding. Nevertheless, third sector and community-based groups can add significant value to a waste management contract – for example, by boosting community social capital through using volunteers, bringing social benefits to low income households, providing niche services to hard to reach groups and by providing work opportunities in a social context⁸.

The squeeze on public sector finances has encouraged fresh ways of thinking about service delivery. Rather than treating ‘economic efficiency’ and ‘social efficiency’ as separate entities, Government has grouped these under the rubric of ‘social value’, the aim being to achieve both aims at the same time and under a single budget by embedding the broader definition of social value within local authority procurement rules.

⁷ The In House Policy Consultancy (2005), Review of the Voluntary and Community Waste Sector in England.

⁸ Brook Lyndhurst (2007), Establishing the behaviour change evidence base to inform community-based waste prevention and recycling.



MEASURING SOCIAL VALUE IN THE WASTE AND RESOURCE MANAGEMENT SECTOR

The definition of social value indicates three broad categories of impact to be measured – economic outcomes, environmental outcomes and social outcomes. As DEMOS points out, there is no single agreed methodology for measuring social value or social return on investment – indeed, over 22 different models were identified.

In the waste and resource management sector, measuring economic and environmental outcomes has received far greater attention than measuring social impacts and, compared to the latter, are relatively straightforward to estimate and convert into monetary form, at least in broad-brush terms (recycling benefits, reductions in greenhouse gas emissions, etc).

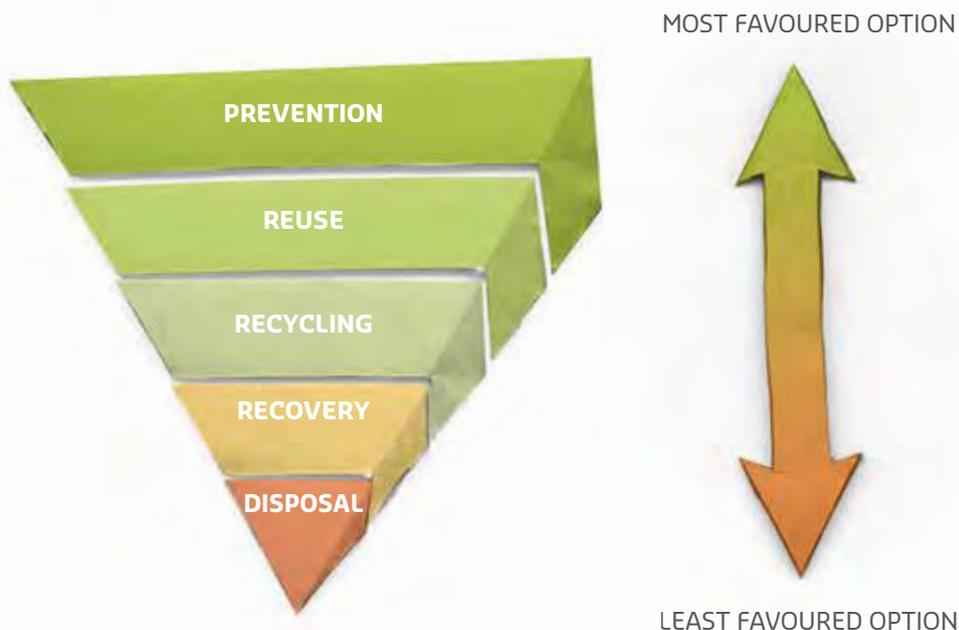
Furthermore, procurement of services has for many years linked contractual service and performance requirements to beneficial environmental outcomes dictated by the waste hierarchy (formally adopted by the UK following the enactment of the Directive on Waste 2008/98/EC).

Defra’s Waste Strategy for England 2007 and the Government Waste Review of 2011 quantified some of these benefits, and a considerable body of research now exists to estimate the net environmental benefits of a contract in monetary equivalents, to combine with the net economic impact of the contract (i.e. its direct costs and benefits).

On the other hand, measuring social outcomes such as community wellbeing and community cohesion has proved far more challenging. Attempts to date to measure these outcomes for the waste and resource management sector have by and large been limited to descriptive expositions of assumed benefits and / or avoided costs.

There is a need to develop a common methodology for the identification, measurement and monetisation of social and community outcomes – so-called ‘soft’ impacts – for example, of the impact of volunteering, changes in individual wellbeing and avoided social costs due to access to services for excluded groups.

THE WASTE HIERARCHY



INVOLVING THE THIRD SECTOR

We have noted that procurement of waste management services is now so closely matched to desired policy outcomes as articulated by the waste hierarchy and by legislation such as the UK Climate Change Act 2008, that the environmental dimension (and by implication the economic dimension) of social value can be assumed to have been captured during the procurement process – economic and environmental benefits are routinely offered by contract bidders in their tender and their assessment as part of the tender evaluation process is now an accepted mainstream activity.

Such is not the case in relation to the social dimension which, as we have seen, can also bring environmental and economic spin-off benefits. Different perspectives of the three actors (local authority, private contractor and third sector) means that the dual aim of matching economic efficiency with social efficiency cannot generally be delivered without some form of collaboration, either between the private contractor and a third sector partner, or in the case of a direct service organisation-led contract, between the local authority and a third sector partner.

Resources for Change⁹ noted that private companies (and direct service organisations) are more likely to focus on contract performance and outputs, while a focus on working to alleviate poverty and promoting community cohesion is likely to be more prevalent in the third sector. Local authorities on the other hand have a duty to deliver services both in waste and resource management, and in the arena of social and community outcomes.

Unlike the economic and environmental dimensions, extracting the maximum social benefit from a contract requires the active intervention of the commissioning authority, hence the focus of this report on opening up opportunities for third sector organisations. Since local authorities hold the ring as the owners of the contract, they also become enablers in bringing the various actors together under the contract. As an enabling instrument, the Public Services (Social Value) Act 2012 is a powerful tool at the disposal of local authorities.

⁹ Resources for Change (2009), Benefits of Third Sector Involvement in Waste Management, Defra Project WR0506.

INTRODUCING THE PUBLIC SERVICES (SOCIAL VALUE) ACT 2012

The Public Services (Social Value) Act 2012¹⁰ became law earlier this year as a result of the introduction of a Private Members' Bill by Chris White MP, which went on to receive Government support.

For the first time, it requires public bodies in England and Wales (including all local authorities and the National Health Service) to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of the area. It is designed to enable more social enterprises, community groups and voluntary organisations to be able to secure public sector contracts, and particularly to encourage partnership and innovation in service delivery, alongside the private sector. It comes into force in January 2013.

The Government is producing guidance on the implementation of the Act.

The Government's definition of social value is a good starting point in determining the essence of the legislation. In guidance from the Department for Communities and Local Government, they state that...

"As a concept, social value seeks to maximise the additional benefit that can be created by procuring or commissioning services, above and beyond the benefit of merely the services themselves."¹¹

When considering the commissioning of services, local authorities and other public bodies are expected to undertake this consideration at the point where an authority proposes to enter into a public service contract, usually known as the 'pre-procurement' stage.

THE PROCUREMENT COMMISSIONING CYCLE¹²



¹⁰ Public Services (Social Value) Act 2012 (<http://www.legislation.gov.uk>).

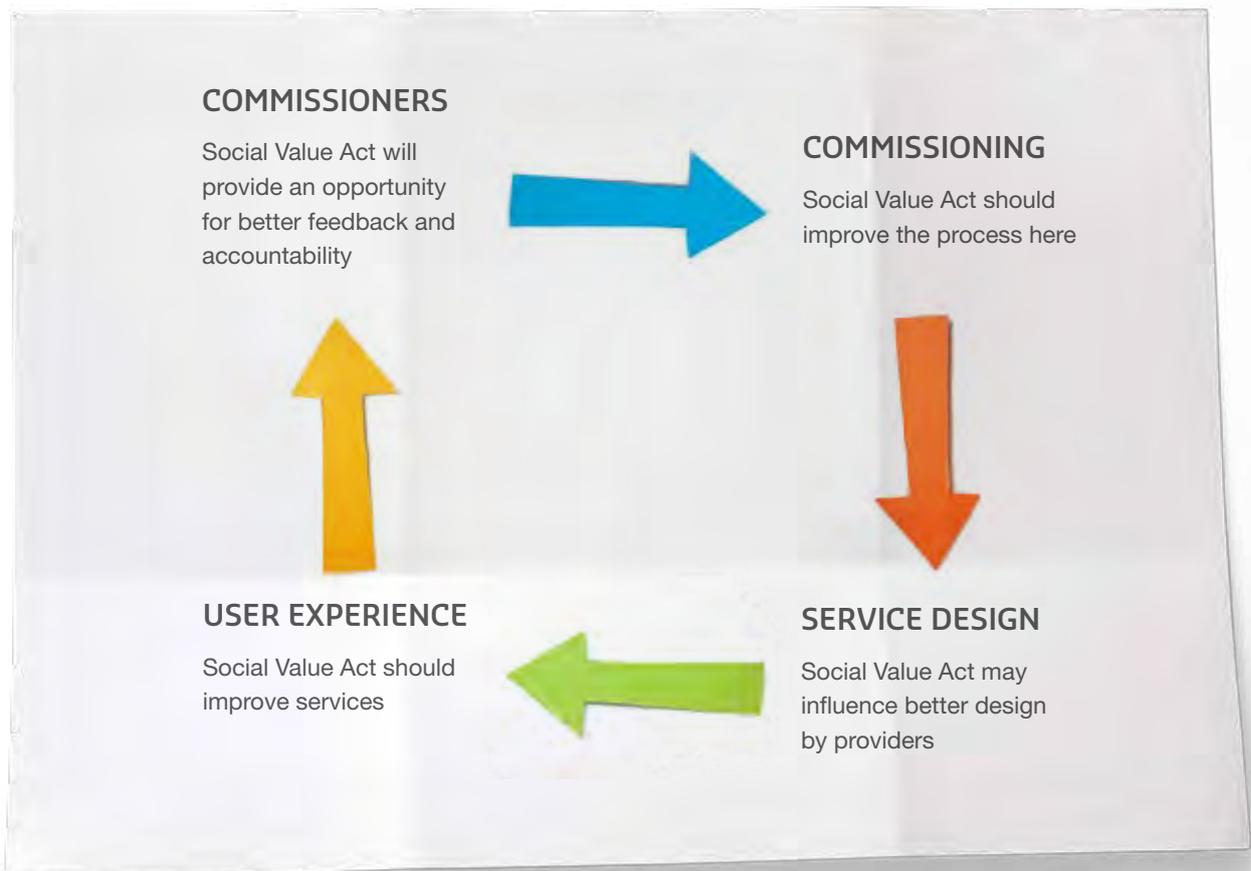
¹¹ Department for Communities and Local Government (2011), Best Value Statutory Guidance.

¹² Source: National Council for Voluntary Organisations.

The legislation also provides the possibility for communities to challenge and hold local commissioners of services to account if social value has not been considered in the procurement process.

Although it is still early days for the implementation of the Act, the potential for the legislation to unlock social value is strong, and it provides opportunities for new partnerships and innovation across sectors. At all points in the commissioning process, the relationship between the users and providers of public services and the commissioning public bodies in the centre can be influenced by the potential built into the consideration of social value.

INFLUENCING POINTS FOR SOCIAL VALUE IN THE COMMISSIONING OF PUBLIC SERVICES ¹³



¹³ Source: National Council for Voluntary Organisations.

THE ROLE OF THE WASTE AND RESOURCE MANAGEMENT INDUSTRY IN ADDING SOCIAL VALUE

The waste and resource management industry provides essential public services that have developed over a century or more of public health legislation that originated in municipal public health and has evolved to a modern framework of laws. In recent years, the industry has worked hard to engage with the communities it serves, recognising that it provides services that everyone wants and needs, but some are resistant to, especially when new facilities are required, as evidenced by recent market research by GfK NOP for SITA UK in our report on public attitudes to community buy-in¹⁴.

One reason for this resistance is that of the three dimensions of social value, the benefits accruing from two (environmental and economic outcomes) are often hidden from public view, because they are manifested at societal level rather than directly benefiting individual householders. For example, energy-from-waste processes can make a significant contribution to the UK's renewable energy targets and to the nation's energy security, but these facilities are rarely welcomed by host communities. The community buy-in report explored ways in which these benefits might be made more tangible for the householder, so that they may obtain a share of the benefits and hence better appreciate their significance and value.

Economic and environmental benefits are often interlinked. Moving waste from landfill into recycling and recovery centres reduces overall emissions of greenhouse gases and also avoids environmental costs under schemes such as the CRC Energy Efficiency Scheme. Recycling waste rather than landfilling it is an environmental benefit, as well as an economic gain – the local authority avoids landfill costs (including landfill tax) while gaining revenue from the sale of recyclates. Some examples of waste related activities and their benefits are described in the following table (overleaf).

Local authorities have a legal obligation to apply the waste hierarchy and other elements of Government waste policy. Therefore, expectations of beneficial environmental and economic outcomes and improvements to current service levels (financial value for money) tend to be built into contracts for waste collection, recycling or disposal.

This has not been the case in relation to social outcomes, which by and large do not form part of a contract's mainstream requirements. One of the primary drivers of the Public Services (Social Value) Act 2012 is recognition of the potential benefits to local communities through the social value added from increased access to public sector contracts by social enterprises, community groups and voluntary organisations. This has the potential to apply across many areas of service delivery, including waste and resource management services. Examples of some of these beneficial social outcomes are included in the following table (overleaf).

¹⁴ SITA UK (2011), Public attitudes to community buy-in for waste and resource infrastructure (<http://www.sita.co.uk/downloads>).

EXAMPLES OF WAYS IN WHICH THE WASTE AND RESOURCE MANAGEMENT INDUSTRY CAN ADD SOCIAL VALUE ¹⁵

Activity	Outcomes
Waste collection	<ul style="list-style-type: none"> Addition of new recycle streams to existing collection services. Increasing community participation through reward schemes. Opportunities for engagement with the third sector in niche areas.
Re-use	<ul style="list-style-type: none"> Support for local refurbishment businesses. Reduced environmental impact from resource use. Engagement with charitable organisations. Partnership working with socially-excluded / marginalised communities.
Higher recycling	<ul style="list-style-type: none"> Contribution to local authority recycling targets. Avoided landfill tax, avoided waste disposal costs. Reduced carbon emissions per tonne of waste treated. Reduced environmental impact from resource use. Increased public awareness and change in behaviour. Revenue from sale of recyclates.
Efficiency savings	<ul style="list-style-type: none"> Lower costs per tonne of waste treated. Lower council charge for householders. Better service quality and more services for the same cost.
Facility siting	<ul style="list-style-type: none"> Section 106 planning agreements. Project support from the Landfill Communities Fund. Retention of business rates for community benefit. Community Infrastructure Levy. Visitor centres, educational and learning facilities.
Energy-from-waste	<ul style="list-style-type: none"> Contribution to UK renewable energy targets. Lower carbon emissions relative to landfilling. Lower carbon emissions per unit of energy generated. Potential for lower energy bills for host community. Potential for low-cost heating of community and domestic premises.
Third sector involvement	<ul style="list-style-type: none"> Engaging with hard to reach communities. Finding roles for the disengaged and disempowered. Support for charities and good causes. Supporting community swap shops. Providing work for disadvantaged communities. Fostering skills and experience in the environmental sector. Reduced pressure on social services. Avoided cost of social benefits, disability allowance, etc. Community cohesion through volunteering. Contribution to regeneration projects.

¹⁵ Sources: Urban Mines (2009), Delivering Socio-Economic Benefits from Municipal Waste Management Contracts. Resources for Change (2009).

Some social outcomes considered in waste management case studies assessing social return on investment are 'intangibles'. For example, Resources for Change include outcomes such as:

- a. Improved social / community cohesion.
- b. Improved physical and mental health.
- c. Improved self-esteem, self-confidence and wellbeing.

All of which are difficult if not impossible to monetise with any degree of confidence.

Thus, some outcomes lend themselves straightforwardly for inclusion in a social value / social return on investment calculation – such as direct and indirect job creation. Others need further consideration by interested parties to avoid the potential for double counting – for example, avoided emissions costs and greenhouse gas savings. A third group require balanced consideration using stakeholder-driven research to determine the extent to which they can be incorporated into a social value calculation – for example, the social value of Section 106 Agreements, the Community Infrastructure Levy and the Landfill Communities Fund.

Given that there is no consistently approved methodology for calculating social value, our recommendation is that, in the implementation of the Public Services (Social Value) Act 2012, Government could usefully collaborate with stakeholders in the waste and resource management industry, third sector and the research community to identify and agree which of these elements of avoided costs and actual benefits generated by the activities of the sector might reasonably be incorporated into a methodology for calculating social value.

This approach chimes with the recent recommendations to Government from the Transition Institute¹⁶ who recommend full involvement of all relevant stakeholders in the determination of social value approaches to commissioning and procurement. Their approach, which is designed to fairly assess the potential of the third sector, can be applied in principle to our 'whole industry' approach.

¹⁶ Transition Institute (2012), Starting Point Paper: Commissioning and procurement with social value.

THE POTENTIAL FOR THIRD SECTOR COLLABORATION

The third sector in waste and resource management has evolved considerably from the days when it pioneered kerbside collection of recyclables in the 1970s and 1980s.

The most recent (2009) study¹⁷ of the sector for WRAP and REalliance shows that in 2008/9 the third sector employed 4,600 people, created 43,000 training and volunteering opportunities and diverted around a quarter of a million tonnes of material from landfill on a total turnover of £133 million. Much of the operational income of the third sector has come from a mix of employment and training programmes, local authority grant aid, charitable trusts, education and awareness programme funding and some consultancy. A modest amount has come from contracts for local authority services (either direct or sub-contracted) focused on collection services, and from the sale of recyclates and other collected goods.

However, beyond this broad split of income, it is difficult to assign with any degree of confidence the contribution of each source, or to assess which elements of the service provided by the third sector would be boosted the most through application of the Public Services (Social Value) Act 2012.

Focusing solely on waste collection, since this tends to be the most direct route for private sector involvement, the WRAP and REalliance report indicates that in 2008/9 this income was around £2.8 million from contracted waste collections and from service level agreements, representing 0.25 per cent of the local authority waste collection services market of around £1.15 billion. Although this is regarded as an underestimate (as a result of not all organisations completing surveys, particularly in the re-use sector), it still compares modestly to the two per cent average value of local authority contracts delivered by the third sector as a whole¹⁸.

SOCIAL VALUE IN THIRD SECTOR AND PRIVATE SECTOR COLLABORATION

Potential exists for greater collaboration between the private and third sectors in delivering local authority waste collection services. Much of the social value return is therefore delivered jointly, irrespective of whether third sector groups are sub-contractors.

Taking methodology adopted in the Defra research¹⁹ on social return on investment for a range of service types in the sector and applying a conservative average social return on investment of £2.25 for every public £1 contracted, reaching a two per cent contract value target would deliver over £26 million a year of additional social value.

If a greater proportion²⁰ of third sector contract value was for the delivery of re-use services, then the potential additional social value could reach £54 million a year.

¹⁷ WRAP and REalliance (2009), Third Sector: Investment for Growth.

¹⁸ House of Commons Public Administration Select Committee (2008), Public Services and the Third Sector: Rhetoric and Reality, Eleventh Report of Session 2007-08 Volume 1 26 June 2008 and summary data in Clark J, Dobbs J, Kane D and Wilding K (2009), The State and the Voluntary Sector – recent trends in government funding and public service delivery, National Council for Voluntary Organisations.

¹⁹ Resources for Change (2009), Benefits of Third Sector Involvement in Waste Management, Defra Project WR0506 – Annex 2.

²⁰ Defra research identified many re-use projects as delivering greater social return on investment, up to £5.89 for every public £1 contracted. Assumption based on 70 per cent of the £11.5 million contract value being assigned to re-use projects.

Local authority waste collection contracts are procured on a long cycle, with contract length at an average of seven years. On this basis, the 355 waste collection and unitary authorities in England would produce an average of around 50 procurements a year at an average contract value of approximately £2.8 million. This market is split approximately 50:50 between private sector contractors and in-house direct service organisations.

Simply taking the private sector share of the municipal waste collection market and making a judgement about the potential for greater collaboration with the third sector, we can estimate a potential income for the third sector and produce an estimate of social value for that activity. A 50:50 share of the municipal waste collection market amounts to a value to the private sector of approximately £575 million a year.

CASE STUDY

THE DIRECT INVOLVEMENT OF LOCAL COMMUNITY ADDING SOCIAL VALUE - THE FOOD LOOP PROJECT

The Food Loop Project is an innovative community project involving residents in Maiden Lane in the 'co-design' of activities to collect food waste from local households, compost the material locally and return the value in that material back to the community through plants and seedlings grown using the compost. A virtuous circle of activity involves local residents, the local authority (London Borough of Camden) and social enterprise in an innovative and empowering solution to the problem of food waste. It has generated volunteering opportunities and increased awareness of waste and resources within the community. www.foodloop.org.uk

THE ORIGINAL FOOD LOOP CYCLE



If a fresh approach to collaboration with the third sector as a result of increased local authority implementation of the Public Services (Social Value) Act 2012 led to even just the two per cent average market share of contract value for the third sector across public service provision, this would produce contract value for the waste and resource third sector of £11.5 million a year.

Most of this would be expected to derive from third sector delivery of refurbishment and re-use, and the collection of bulky waste, as this is the major operational element of today's waste and resource third sector. It offers considerable potential for the sector to extend its community engagement increasingly in collaboration with private sector contractors able to offer partnership approaches to their local authority customers, especially those embracing fully the provisions of the Public Services (Social Value) Act 2012.

However, we anticipate that awareness of the Act in local authority waste management departments may still be limited, as it is still at the implementation and guidance stage. We hope that this report is seen as a starting point, but more work will be needed on detailed guidance for local authority waste departments on the implementation of the Act.

SOCIAL VALUE GENERATED BY MOVING PEOPLE FROM UNEMPLOYMENT INTO THE WASTE AND RESOURCE MANAGEMENT SECTOR

Defra research²¹ describes studies showing an annual net benefit to society of moving someone from unemployment to employment ranges between £16,500 and £20,500 annually, including costs saved to society (such as care, health and crime).

Using employment growth projections applicable if the UK moves towards a circular economy and drives waste from landfill (from the SITA UK Driving Green Growth report), by 2020 this could potentially generate over £600 million in added social value²².

CASE STUDY

NOVELIS RECYCLING AND CROW

In 2010, social enterprise Coventry Recycling of Waste (CROW) began operating a 'Think Cans' can recycling operation at its community-based recycling centre, located on the Sparkbrook Street Industrial Estate in the city. Members of the public and local businesses can bring any quantity of used aluminium cans to the centre to be recycled. The centre is being supported by Novelis, the world's leading aluminium can recycler and operator of Europe's only dedicated can recycling plant, located in Warrington, Cheshire.

CROW, which is a registered charity, has been providing work experience, training and tuition for adults and young people with disabilities and learning difficulties since 1985. CROW uses the medium of recycling waste materials to provide invaluable opportunities for people who might otherwise be disadvantaged in the workplace.

The business development team at Novelis provided advice and support, and the charity has adopted a commercial approach, using incentive and reward schemes to maximise participation.

²¹ Resources for Change (2009), Benefits of Third Sector Involvement in Waste Management, Defra Project WR0506.

²² Using an assumption that 40 per cent of the jobs created over the period 2013 – 2020 are filled by formerly unemployed people and an annualised benefit to society estimate of £18,500.

BARRIERS TO THIRD SECTOR INVOLVEMENT IN WASTE MANAGEMENT CONTRACTS

It is evident that the third sector engages only to a limited extent with the local authority waste management sector, capturing less than one per cent of the total value of the market. The In House Policy Consultancy lists six barriers to public and community partnership in the procurement of waste-related services, as identified by the Community Resource Network UK:

- + Lack of early and effective consultation with the community sector, leading to poorly packaged or unattractive procurements.
- + Failure to properly assess community sector capabilities: public sector procurers are too risk averse and focus overly on perceived weaknesses.
- + Difficulty in finding out about contract opportunities and who to approach about becoming a supplier.
- + Trend towards use of larger contracts, such as national or regional frameworks, and rationalisation of the supplier base.
- + Complex and costly pre-qualification and tendering procedures with unrealistic timescales, prescriptive specifications and excessive contract terms.
- + Lack of a level playing field in procurement, particularly relating to full cost recovery in community sector tender prices.

The WRAP and REalliance study identified many of the same barriers in 2009, which from discussion with REalliance still pertain in 2012. Addressing each of these concerns in turn:

LACK OF EARLY CONSULTATION

Up to the advent of the Public Services (Social Value) Act 2012, there has been no systematic strategy on the part of local authority procurers to include the third sector in the provision of waste and resource management services. The Act will require local authorities to consider the social dimension (alongside economic and environmental considerations) in their pre-procurement procedures and to allow for the inclusion of third sector service providers. According to the guide published by Social Enterprise UK, procurement rules state that social requirements must be defined in ways that do not discriminate against different types of bidders.

RISK-AVERSE PROCUREMENT

It is difficult to respond to this barrier as perceived by the third sector. Local authorities procure services on behalf of their communities, using public funds. As such, risking the contract by partnering with a service provider judged to be weak in areas such as performance delivery and contract management is not in the public interest, and may indeed be viewed as a dereliction of duty on the part of the procurer. Realistically, the majority of third sector organisations have neither the assets nor the financial strength to service even modest-sized collection contracts on their own, and it is in partnership with lead direct service organisations or private sector service providers that we see the greatest opportunities for their involvement in the delivery of social value.

LACK OF INFORMATION ON CONTRACT OPPORTUNITIES, ETC

WRAP and REalliance (2009) identified “almost 700 active resource recovery third sector organisations [operating] in England”, with several thousand more charities engaged with the sector in some way. The introduction of the Act will require a more systematic approach, both on the part of the procuring authority and of the prospective private sector contractor, to identify which third sector organisations operate in the catchment of a waste management contract and in what areas they are active. A national or regional database that all parties can access would be invaluable for this purpose. The Office of Government Commerce report²³ recommended that “Government, in partnership with local authorities, should develop, maintain and publish a coordinated picture of local authority waste procurement plans and progress”. This register should be expanded to include details of third sector organisations active in waste and resource management.

LETTING OF LARGER SCALE CONTRACTS

This issue applies even more today than it did in 2009, with local authorities actively encouraged to bundle waste collection contracts in order to lower procurement costs and achieve back-office savings. Certainly as sole bidders, the move towards tendering larger contracts would tend to work against service providers from the third sector, a factor recognised in the Office of Fair Trading report²⁴. Whether limiting (collection) contract length, say to five years, as recommended by the Office of Fair Trading, would materially improve the third sector’s chances of successfully bidding for waste-related contracts is debatable – the perceived weaknesses in delivery and contract management would tend to be overriding considerations in a tendering process, regardless of contract length.

COMPLEX AND COSTLY PROCEDURES

This issue was also recognised in the Office of Fair Trading (2006) report, with the recommendation that selection criteria should not be overly restrictive and that ‘open’ procurement procedures should be used. However, given the acute sensitivity of the public to waste management services, especially waste collection, it is difficult to see how procedures or contractual safeguards can be so loosened that improved access for the third sector is gained at the expense of contract performance and security of service.

LACK OF LEVEL PLAYING FIELD

The main concern expressed by third sector organisations was that full cost recovery was often difficult to include in the bid price offered to a local authority. At the root of this issue is how third sector organisations support and fund their operations. The In House Policy Consultancy identified grant funding as critical to the survival of the majority of third sector providers operating at the time. Since 2005, the Landfill Tax Credit Scheme (now the Landfill Communities Fund) has been closed to waste management projects, removing an important component of grant funding as the principal support for many third sector organisations. WRAP and REalliance noted a difficult transition from a ‘grant culture’ to a ‘contract culture’, as local authority procurers expected a more commercial value for money proposition to match tenders from the private sector.

As central and local government grant funding is reducing even further in the ongoing budgetary squeeze, the long-term viability of many third sector organisations operating in this sector must be a cause for concern. New business models must be developed by the third sector if they are to continue with their work in waste management, utilising their skill base to open up opportunities that should exist as waste activity is driven further up the waste hierarchy – prevention and re-use being most prominent.

Addressing these barriers by opening up the potential for collaboration, combined with the prospect at least through the Public Services (Social Value) Act 2012 of access to opportunities in public service procurement, present the best prospects of future success and survival for the third sector.

²³ Office of Government Commerce (2006), Improving Competition and Capacity Planning in the Municipal Waste Market: OGC Kelly Report to the Financial Secretary to the Treasury.

²⁴ Office of Fair Trading (2006), More Competition, Less Waste.

BUILDING ON FOUNDATIONS: SOCIAL VALUE IN ACTION

The Public Services (Social Value) Act 2012 builds on an existing foundation of good work and examples of where private and third sectors have worked well to deliver social value in addition to their contracted service provision for councils.

Here are some from the waste and resources management sector. Many case studies across the full range of local authority service provision (e.g. in social care, health services) are available to view, for example in the Transition Institute report. Many more are available from REalliance and other support organisations.

CASE STUDY

FURNITURE RE-USE PARTNERSHIP BETWEEN SITA UK AND DONCASTER REFURNISH

A huge amount of perfectly functional furniture still goes to landfill sites every year. In Doncaster, SITA UK works alongside the award-winning third sector organisation Doncaster Refurnish to save these valuable resources from becoming waste and to deliver a quality service to residents.

Doncaster Refurnish is contracted by SITA UK and Doncaster Council to collect all bulky household waste and reuse and recycle as much as possible. Doncaster Refurnish collects unwanted items and makes them available to help people set up home in an economically and environmentally sustainable way, thereby reducing poverty and reliance on debt finance.

Doncaster Refurnish also offers a volunteering and training programme to those facing long-term unemployment, mental health issues and who are disengaged from society. Many of the people offered placements need support in taking the first step to enter the job market or progressing to other opportunities. They are given the chance to be part of a workforce and a team member, and they meet new people and develop new skills, knowledge and confidence.

In 2010/11, the partnership:

- + Diverted 587 tonnes of residual bulky waste from landfill, saving the local authority approximately £33,000 in landfill tax payments.
- + Provided goods to 10,200 low income households, helping them create a home and reducing pressure on other council departments – such as social services, the homeless team and the asylum team.
- + Created five new jobs and offered 175 volunteering placements giving work-based and accredited training to socially disadvantaged people, thereby increasing their employability, self-esteem and skills.

All from waste once destined for landfill.

CASE STUDY

CREATING TRAINING AND VOLUNTEERING OPPORTUNITIES THROUGH ELECTRICAL ITEMS REPAIR – BRIGHT SPARKS, ISLINGTON

Bright Sparks is a new type of repair and re-use shop that opened in June 2010, funded by Islington Council and run by a third sector partnership led by London Community Resource Network (LCRN) with social enterprise DigiBridge. Apart from reducing waste by repairing and reusing small electrical and electronic appliances that would otherwise be thrown away, an important aim is to give access to affordable household appliances to the residents of Islington and to provide vocational training for those out of work.

Bright Sparks makes it easy for people to reuse, repair or recycle their electrical items, thus reducing the quantities that end up on landfill sites. An important part of the service is making it convenient for the public to use. Ten collection points for donations of electrical appliances are dotted around the Borough and there is a shop that people can visit either to buy re-use items and / or drop off items for repair or donation.

Bright Sparks includes an electrical appliance repair service for those who want to keep their items in use. The repairs are made at a workshop that offers training and volunteering opportunities. A team of engineers, trainees and volunteers test, repair and return small electrical items – like kettles, hair dryers and lamps – that are often binned simply because they are no longer needed or not the latest fashion.

From October 2010 to September 2011, Bright Sparks has:

- + Provided over 250 collections to estates and businesses.
- + Diverted almost 50 tonnes of electrical items from landfill.
- + Collected over 7,600 items for repair, re-use and recycling.
- + Served around 3,000 customers for re-use, donation and repair of electrical items.
- + Engaged over 5,700 individuals for enquiries through the Bright Sparks shop.

This scheme is London's first domestic appliance repair service and is expected to be a model for other councils.

www.brightsparksonline.com

BEYOND CORPORATE SOCIAL RESPONSIBILITY

In this report, we have been on a journey. Having started with the examination of the shared value model as a way forward for the relationship between the private and third sectors in waste management, we then focused on the potential of the social value concept, and particularly the new legislation, in encouraging councils to consider social value in their commissioning and procurement of waste services and thereby unlocking more potential collaboration between sectors.

Much of what has gone before in terms of the waste and resource management industry's relationship with the third sector and community groups more widely could be regarded as classic corporate social responsibility and, over a number of years, has generated mutual benefits. This has come not just through the work of the Landfill Communities Fund, but through partnerships with third sector groups and social enterprises where mutual benefits have been identified.

Where vibrant third sector waste organisations exist, the social value model potentially opens up opportunities for collaboration. In other areas, it presents the prospect of a direct engagement between the private waste contractor and the community they seek to serve. Increasingly, the responsive private sector willing to engage and innovate with communities will find itself in a position to be able to demonstrate social value added directly from local authority services. Examples such as 'co-design' of services with the community present opportunities for the private sector to engage more effectively.²⁵

As social value establishes itself as an important tool in local authority procurement of significant areas of service provision, there is the prospect of a change in the landscape of relationships. Local authorities have the opportunity to break down conventional barriers between sectors and involve their communities much more in the design of services and determination of the benefits and outcomes they wish to receive.

²⁵ The Policy Studies Institute (2010) study: Food Loop – Testing innovative approaches for achieving pro-environmental behaviours is a good example of involving a local community in the design and delivery of a food waste collection and processing scheme.

CONCLUSIONS AND RECOMMENDATIONS

The social value approach, and in particular the implementation of the Public Services (Social Value) Act 2012, has the potential to have a significant impact on the design and procurement of local authority waste and recycling services. At this early stage of implementation of the Act and before detailed guidance is available, we make several recommendations for action.

RECOMMENDATION ONE

Government should establish national guidelines for measuring social value in the waste and resources sector, and invite a cross-sectoral representative group to advise them on the most appropriate approaches. These guidelines need to be made available to local authorities commissioning and procuring services as early as possible in 2013, in order for the monetary value of social value offerings to be incorporated within the tender evaluation process.

RECOMMENDATION TWO

Government should re-introduce the ability to support waste and resource management projects for spend under the Landfill Communities Fund. This could be done with a specific social value objective, to include educational and awareness-raising projects and the essential activity of third sector support bodies. In the short-term, Government could allow the existing Landfill Communities Fund a three-year special dispensation to support pilot social value projects and evaluate the potential of this route for funding support.

RECOMMENDATION THREE

The waste and resource management industry should lead a discussion with stakeholders in local government, the third sector and the research community to identify and agree which elements of avoided costs and actual benefits generated by the activities of the sector might reasonably be incorporated into a methodology for calculating social value. This work should feed into the work advocated in recommendation one.

RECOMMENDATION FOUR

Government could take a unique opportunity to establish a strategic approach to adding social value (in particular employment creation) from the activities of the waste and resource management industry by merging waste planning into wider economic development planning, recognising that the two are vitally interlinked.

RECOMMENDATION FIVE

Government should support the third sector in establishing a central or regional register of third sector organisations that can be mapped onto current and upcoming collection and disposal contracts by both local authorities and by private sector bidders.

RECOMMENDATION SIX

The third sector should be encouraged to form local or regional medium to long-term strategic partnership agreements with the private sector, either separately or through their sector organisations. A real spirit of partnership would encourage private operators to work with the third sector on capacity building with partners for mutual benefit – for example, in improving management skills and providing basic amenities.

RECOMMENDATION SEVEN

Third sector support bodies should link up their local members into regional networks focusing on specific activities – for example, collection and refurbishment of furniture, collection and refurbishment of bicycles and small implements – so as to offer scaled up services to direct service organisations or private sector lead contractors in new procurements.

RECOMMENDATION EIGHT

Local authorities should be encouraged to nurture local community innovation that may not fall easily into their existing models of operation, especially where they present opportunities to realise more social value – such as in service co-design and micro social business development that directly involves local communities.

RECOMMENDATION NINE

Momentum in these activities would be generated through regular and structured dialogue across sectors. A new Social Value in Waste Forum should be created, led by local government that has the duty to consider social value, but involving the private and third sector and other interested parties to take forward the development of this opportunity.



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SOURCES FOR FURTHER HELP

NAVCA

<http://www.navca.org.uk>

REALLIANCE

<http://www.realliance.org.uk>

NATIONAL COUNCIL FOR VOLUNTARY ORGANISATIONS

<http://www.ncvo-vol.org.uk>

SOCIAL ENTERPRISE UK

<http://www.socialenterprise.org.uk>



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