



THE PRICE OF EVERYTHING, THE SOCIAL VALUE OF NOTHING

BRIEFING PAPER

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The UK Government is – rightly – trying to free the huge sums of money involved in Britain’s public procurement from the slow and rigid red tape of European processes, and create a new system where competition is sharper and highly transparent, where disruptive challengers can take on big corporate incumbents fairly and successfully, and where contracts can be placed more nimbly, so our public services are cheaper and work better at the same time.

These are crucial steps to help post-Brexit Britain turn itself into a more productive economy, a more dynamic society, and to reduce costs when household budgets are tighter than they’ve been for years. But this paper argues that all of it could be undermined by the Social Value Act; a decade-old hangover from a different time of easy money and low inflation, which lets public officials and Ministers off the hook of finding the best deals for taxpayers by providing them with a handy fudge factor called ‘social value’ instead. It suggests this creates an all-too-tempting Get Out Of Jail Free card which could allow public servants to slant a contract’s selection criteria away from buying the best quality for the cheapest price, and towards political favourites whose views are congenial to the Government of the day, or to those who can afford the best lobbyists to link their client’s wares with whichever fashionably-attractive cause makes them harder to beat.

If it leads to vital public services costing more than they should, or using second- or third-rate products instead, then not only will taxpayers and citizens all lose out, but Britain’s future will be less dynamic, less interesting and cutting-edge, and far less internationally successful than it could and should have been. It’s a sobering message, which is why this paper is worth anybody’s time and attention.

The Social Value Act 2012 proscribes 30 pages of criteria that businesses, regardless of their size or speciality, must conform to. Including, but not limited to, tackling economic inequality through their entire supply chain, dedicating staff to ‘protect and improve’ the environment, and mandating expensive cybersecurity licensure, even for analogue businesses. The Act and Social Value Model is biased towards large companies in its requirements, marginalising Micro, Small, and Medium sized Enterprises and independent contractors. It also has very poor reporting and enforcement metrics. The Model is fundamentally a flawed method of undertaking procurement, and is an extension of welfare-type economic thinking.

WE RECOMMEND THAT THE GOVERNMENT UNDERTAKE:

- A new review of the Social Value Act by the Public Accounts Committee, ensuring that it can be evaluated to provide fairness and transparency to SMEs.
- A review of the reporting metrics for Model Award Criteria (MAC), removing social and economical engineering of companies from criteria.
- A review of the appropriateness of MACs on a contract-to-contract basis, rather than on whole system proscriptions.
- A repeal of the Social Value Act, and push for legislation which prioritises fairness for SMEs and challenger procurers. It should also do away with ‘localism’, and prioritise the independent comparative advantage of firms across the UK, and internationally.
- A review of the obligations placed on procurers, bar those mandating anti-corruption and anti-transparency measures.

INTRODUCTION:

Procurement costs a staggering £379 billion to the taxpayer every year, making up 32% of the UK’s total government budget. It is also ahead of the OECD average (See Annex 1).¹ With this section being the largest component of UK public spending, and given the amount of waste, blunder, and excess in other smaller areas of public spending, it seems implausible that this area is immune from such problems. Procurement crosses every area of governance in the UK, so it should remain of the utmost importance that it is done in a cost effective and ideological manner. There are many reforms to be made which would transform public procurement into a system of lower costs for businesses and taxpayers, with higher efficiency gains for future procurement delivery.

Of the 235 major projects ongoing in the British government, 169 (72%) are qualified as ‘amber’, where “significant issues already exist requiring management attention”. 26 (11%) are qualified as ‘red’, where “successful delivery...appears to be unachievable”, and 23 (9%) are qualified as ‘green’, where the project is on time and on cost. Other projects are protected by

¹ 1. “Government at a Glance 2021,” OECD iLibrary, July 9, 2021, https://www.oecd-ilibrary.org/governance/government-at-a-glance-2021_1c258f55-en.

National Security laws, where their status is not disclosed. Much of the blame can be placed on procurement, with management and planning taking blame too.²

However, given the increased complexity of new procurement methods, value for money is no longer a priority. Since 2012, with the Public Services (Social Value) Act, structural reform of British procurement has been underway - with Social Value being integrated into the majority of procurement contract criterias. Social Value has influenced every sector of the government's Levelling Up and Net Zero programme, with considerations over reducing inequality, environmental and wellbeing concerns affecting every procurement decision. In itself, these considerations are not of poor intention, but instead they are integrated in a haphazard way, driving concentration away from viability and towards uneconomical waste.

The problems lie with the incentives structure within the Civil Service. The British Civil Service has serious flaws in its incentive structure - from risk aversion to accountability, to the very methods by which procurement is undertaken. The Civil Service has a long history of repeated procurement failures, costing the taxpayer £141.7bn over the past 30 years, including the cost of the yet to be delivered High Speed Rail 2 programme. The National Programme for IT (NPfIT) was axed after spending £10.1bn over 7 years, in an attempt to replace ageing NHS legacy data systems. Likewise, the Ministry of Defence (MoD) has racked up "wastage of taxpayers' money running into the billions" with poor contracts and expectations, especially in the wake of Russia's full-scale invasion of Ukraine.³ This is a government-wide problem and must be solved.

By reforming procurement, we can meaningfully shape the method through which the government acts. Making the Civil Service's procurement method more open to competition, and placing legislative restrictions on the '*Revolving Door*' of contracts and consultancies would refresh our procurement strategy. Likewise, removing the vague and biased 'Social Value' qualifications for procurement would reduce costs to the taxpayer and increase local investment without infringing on deliverables. Social Value criteria crowds out small businesses and charities from fulfilling government contracts, as preference is given to arbitrary conditions, all supported by political charities and movements lobbying the government into creating 'stakeholder procurement'.

² 1. Infrastructure and Projects Authority, "Infrastructure and Projects Authority Annual Report 2022," GOV.UK, July 20, 2022, <https://www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2022>.

³ "Improving the Performance of Major Defence Equipment Contracts," House of Commons Committee of Public Accounts, October 21, 2021, <https://committees.parliament.uk/publications/7706/documents/80491/default/>; 1. George Greenwood, "MoD Destroyed Challenger Tanks That Could Have Gone to Ukraine," The Times, July 30, 2023, <https://www.thetimes.co.uk/article/mod-destroyed-challenger-tanks-that-could-have-gone-to-ukraine-hklr9wpv6>.

The use of Social Value as a priority in procurement demonstrates the government's desire to further regulate social and economic activities. The government defines social value as something which "delivers improved social welfare and wellbeing" through procurement contracts.⁴ As with any regulation over economic activity, there are assumptions about the social value of the firm. Such criticisms are by no means a wider discrediting of social value as a concept or its nominal outcomes; however, the manner in which such an ideology is executed in public policy creates harm rather than benefits.

As Marc Tool has pointed out, the use of social value in regulatory decision-making is a progressive, anti-neoclassical policy framework, which seeks to uphold "the continuity of human life and the non-insidious recreation of community through the instrumental use of knowledge".⁵ Despite lacking any mention in the 2019 Conservative Manifesto, the agenda of Social Value has been unilaterally implemented within government procurement frameworks. As Tool further argues, such regulations, regardless of their progressive nature, must be overseen with "democratic control".⁶ Yet, such a body does not exist within the British government, making this policy unaccountable to the British public and public procurers. The most notable concern is that the British government does not have standard social auditing or an accountability mechanism in its accounting functions. Without a sufficient accountability mechanism, there is a gross failure to pursue economically efficient procurement, democratic validation of the social value framework falls on its face. The lack of such accountability, across government, has been put forward by various academics and commentators.⁷

Voluntary, open networks, such as the National Social Value Taskforce, provide outlines as to how frameworks should be implemented and measured. However, a voluntary approach is at odds with the government's approach to procurement. At the heart of social value is an institutionalised interpretation of stakeholder capitalism, whereby companies must "embrace a pro-social purpose beyond profit maximisation and take responsibility for the health of the natural and social systems".⁸ The enforcement of this new approach

4 Cabinet Office. "Transforming Public Procurement - Gov.Uk." Cabinet Office, December 2020. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943946/Transforming_public_procurement.pdf.

5 Marc R. Tool, 'Some Reflections on Social Value Theory and Regulation', *Journal of Economic Issues* 24, no. 2 (June 1990): 535-44, <https://doi.org/10.1080/00213624.1990.11505052>. p539.

6 Tool, 'Some Reflections on Social Value Theory and Regulation'. p542.

7 Benoit Guerin, Julian McCrae, and Marcus Shephard, 'Accountability in Modern Government: What Are the Issues?' (London: Institute for Government, 2018), <https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG%20accountability%20discussion%20paper%20april%202018.pdf>.

8 Lucian A. Bebchuk and Roberto Tallarita, 'The Illusory Promise of Stakeholder Governance', *SSRN Electronic Journal*, 2020, <https://doi.org/10.2139/ssrn.3544978>. p11.

to Stakeholder Capitalism will lead to worse outcomes for stakeholders. This finding is not just demonstrated with the ASI's report on 'Capitalism after Covid-19', but also at Harvard's own school of Corporate Governance, where Bebchuk and Tallarita (2020) argue that "the increased insulation from shareholders, and the reduced accountability to them, would serve the private interests of corporate leaders, but not those of others...undermining economic performance".⁹ The social value agenda is pushed by these voluntary networks, complicit policymakers, and by much larger and resilient suppliers in the procurement economy.

For small and medium sized enterprises, profit maximisation and growth is the sole objective in their often fragile and embryonic stage - without this objective, failure would be ensured, caused by a drying up of investment from a lack of dividends. For larger companies, costs towards wider stakeholder engagement can be much more easily absorbed by their coffers. Contrary to the EU's effective public procurement framework, which outlines a system to "promote open and transparent competition for European public contracts, to support the free market and help ensure value for money in public purchasing", the British system continues its less attractive offering to domestic companies.¹⁰

Social Value is a derivation of Welfare Economics. As Besley (2002), Aghion and Bolton (1980), and Milesi-Ferretti and Spalore (1994) demonstrate, the use of this welfare economics leads to changes (or retention) of policymakers rather than purely benefitting citizens. The push for Social Value within procurement policy seems to have noble aims; to increase the amount of Social Value through the private and charitable sector's interaction with state procurement bodies. However, given Besley's tension between public good and social value, the government's strategy to 'Level Up' human and community capital is reminiscent of classic pork barrel politics. That is, the government redistributes tax in the name of the public good in order to maintain their elected position. This is not tenable in the fiscally-tight environment we find ourselves in following the Covid-19 pandemic and Russia's invasion of Ukraine. Hence, by ensuring that the private sector, rather than the Exchequer, picks up the tab for the political objectives of office-seeking politicians, there will be a lesser drag on the direct debt and tax burden on the public whilst increasing costs in the tax-base.

Social value, according to analysis by CECP and McKinsey, is crucial to creating sustainable and socially-targeted jobs.¹¹ Such jobs and investments

⁹ Bebchuk and Tallarita. p7; 1. Daniel Pryor and Matthew Lesh, "Capitalism after Covid: The Case against Disaster Corporatism," Adam Smith Institute, January 26, 2022, <https://www.adamsmith.org/research/capitalism-after-covid-the-case-against-disaster-corporatism>.

¹⁰ Department for Communities, "EU procurement rules", accessed February 27, 2023: <https://www.communities-ni.gov.uk/eu-procurement-rules>

¹¹ CECP, 'Shaping the Future: Solving Social Problems through Business Strategy' (New York, NY:

correct structural externalities caused by current and previous political-policy decision making by the government, such as the wage gap and geographic inequality. The fourth sector plays a considerable role in defining and training various supply chains' social value obligations, much of which is later paid for by raising prices on consumers, and greater stress on limited capital. Whilst the likes of large businesses can afford such grand strategic moves, the average small enterprise in the UK only has a revenue of £259,254, leaving little on the margins for non-business related expenses.¹² By adjoining additional and arbitrary criteria onto procurement applications, the difficulty of attaining a fair market for SMEs is vanquished, placing larger companies at a significant advantage in tendering processes because of their access to economies of scale in compliance, data access, and speed of response to queries.

A new fusion of politics and the private sector has emerged from the ideology of social value. Where employees and companies could voluntarily finance, volunteer, or coordinate various third-sector or 'socially valuable' initiatives, and records are kept for accountability purposes intracompany, there is little contention. Government forcing companies to undertake such tasks, however, is not within their mandate. Often, it is larger companies and Voluntary, Charitable, and Socially Entrepreneurial (VCSEs) organisations which spearhead the majority of these non-profit activities. This is not the business of the government, as the new social value agenda supposes. By forcing private sector organisations to undertake costly social value obligations, the deleterious effect will cost jobs, innovation, and trust in the government as small companies subsidise managerially-weighted corporations and charities.

In an attempt to coordinate social value in a uniform manner, the government has proceeded to force procurers to undertake costly licensure to ensure cyber security. The licensure is often inapposite for procurers, such as asking software providers to outline their data-centre protocols despite not owning a data-centre. The costs of licensure can exceed thousands, which in financial and time terms for small IT firms, can hamper their growth and performance in fulfilling public contracts.¹³ Licensure for Environmental and Social Governance (ESG) exists too, provided by not-for-profits such as B-Corp, which will eventually find its way into public procurement thresholds.¹⁴ B-Corp is a notable example, especially following the Nigel Farage-Coutts controversy, and the role of such ESG rules in client interaction.¹⁵ On a basis of the first principles which underlie

CECP, 2010).

12 Maxwell Marlow, Duncan Simpson, and James Lawson, 'The Forgotten Medium: Helping Mid-Sized Businesses To Scale Up' (London: Adam Smith Institute, 6 March 2023).

13 Sukanya Awasthi, "Cyber Security in SMEs in the UK: What, Why, and How?," SoftwareAdvice, January 12, 2022, <https://www.softwareadvice.co.uk/blog/2395/cybersecurity-uk-smes>.

14 UK government green financing framework, June 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002579/20210630_UK_Government_Green_Financing_Framework_-_large_text.pdf.

15 Will Hazell, "More than 1,400 UK Firms in Diversity Scheme That Played Part in Farage Account Closure," n.d.

Britain's liberal economy, such licensure is an anathema to the functioning of a healthy and dynamic economy.

As Adam Smith argued: “*the patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbour, is a plain violation of this most sacred property.*”¹⁶ By forcing any public supplier to undertake licensure of questionable effect at the cost of their own business is by no means a viable strategy for creating jobs, investment, and levelling up.

Measuring social value remains a difficult and messy task, one that is rigged with insecurities for its practitioners. Geoff Mulgan, Tony Blair's director of government strategy unit and head of policy, and someone considered a pioneer behind moulding social value into the hands of policy makers, has admitted that such a policy remains difficult to measure. Indeed, one of its greatest proponents, Baroness Thornton, asked the House of Lords “How do we deliver social value if there is absolutely no way of examining it, monitoring it and enforcing where it is not being delivered?”¹⁷

Conclusively, the pursuit of social value does not meet the criteria presumed of an open, liberal, and growing economy. The government's own goals of achieving decentralised, greener, and more equitable growth cannot be found in the mechanisms presented. If the government wishes to construct a more resilient and prosperous supply chain for the immense public procurement budget, their current framework will only seek to preclude innovative and cost-efficient growth. Instead, the government can expect to find more sluggish and costly procurement projects, which is an area that it has already found broad criticism across Parliament and the press for. By abandoning mandates and entrusting its suppliers to develop more valuable businesses and products, there is little doubt in the author's mind that the goals will be met in a sustainable and efficient manner, without harming the wider economy and civic trust.

THE GOVERNMENT'S NEW APPROACH TO PUBLIC PROCUREMENT

The opportunities of Brexit have been touted by the government. Namely, relinquishment from the hundreds of pages of European Union procurement directives and regulations. In December 2020, the government launched a

¹⁶ Adam Smith, *An Inquiry into the Causes and Nature of the Wealth of Nation* (Norwalk, CN: Easton Press, 1991). p123.

¹⁷ Baroness Thornton, “Procurement Bill [HL] - Hansard - UK Parliament,” Hansard, October 24, 2022, <https://hansard.parliament.uk/Lords/2022-10-24/debates/87250434-8ABA-40F5-89C3-C1A3E4D5B5F7/ProcurementBill%28HL%29>.

Green Paper consultation into reforming Britain’s newly liberated procurement powers. The White Paper, *Transforming Public Procurement*, engaged 619 stakeholders to gauge their responses to various aspects of reform, which was published in December 2021.

The government’s proposals for procurement reform are by no means foolish. There is a strong emphasis on deregulation and simplification, combining the new ability to buy ‘off the shelf’ services and products in a fraction of the time with a more flexible and competitive bidding process.¹⁸ Encouraging higher quality, lower cost, and a rigorous procedure for a more economical tender is exactly what the government’s reforms should achieve. However, the government’s priority is shifting away from a Most Economically Advantageous Tender (MEAT) to, simply, the Most Advantageous Tender (MAT), in lieu of their “new social value model”. Indeed, the White Paper states “that social value benefits are explicitly evaluated in all central government procurement where relevant (rather than just ‘considered’ as currently required under the Public Services (Social Value) Act 2012)”.¹⁹ Thus, there is a notable contradiction in terms to economists, as economic transactions are borne out of social value, as Adam Smith argues:

“Every individual... neither intends to promote the public interest, nor knows how much he is promoting it... he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”²⁰

This failure to understand that economic transactions are universally beneficial is a trait found in the left-wing and mercantilist groups lobbying the government to include social value in procurement practices. VCSE groups and SocialValueUK, are in lockstep with the Chief Executive of the Crown Commercial Service, Simon Tse, in arguing that social value should underline their procurement reform.²¹ For Tse and the Civil Service, as any public choice economist will tell us, the attempt to reform procurement under the folly of social value smells of a cynical attempt to change the institutions to their own brand.

¹⁸ Cabinet Office, “Transforming Public Procurement - Government Response to Consultation,” GOV. UK, December 6, 2021, <https://www.gov.uk/government/consultations/green-paper-transforming-public-procurement/outcome/transforming-public-procurement-government-response-to-consultation>.

¹⁹ Transforming Public Procurement: Government response to consultation, December 2021, p26.

²⁰ The Theory Of Moral Sentiments, Part IV, Chapter I, pp.184-5, para. 10

²¹ Simon Tse, “‘Lessons We’ve Learned Will Stand Us in Good Stead’: CCS Chief Simon Tse Looks Back on 2021,” “Lessons we’ve learned will stand us in good stead”: CCS chief Simon Tse looks back on 2021 | HCSEA, January 10, 2022, <https://www.nhsprocurement.org.uk/news/lessons-weve-learned-will-stand-us-in-good-stead-ccs-chief-simon-tse-looks-back-on-2021>.

PPN 06/20 states that “social value should be explicitly evaluated in all central government procurement”.²² Likewise, the application of the Social Value model will be “mandatory in central government”, with a “minimum weighting of 10% of the total score...to ensure that it carries a heavy enough score to be a differentiating factor in bid evaluation”.²³ The government’s new procurement framework seeks to pick winners based on arbitrary, costly, and politically advantageous metrics that will be excessively expensive for SMEs and VSCEs to access.

The government’s approach to Social Value is an attempt to ‘pick winners’. Framework Model Award Criteria stipulate the need to prioritise local suppliers and business, even if it costs the tax-payer more.²⁴ This is despite the White Paper arguing that the government will retain fairness towards “international competitors”, creating a contradictory grey-zone for non-local yet domestic suppliers. This strategy undermines the government’s Levelling-Up agenda, costing businesses more purely due to their location; suppliers in the North will be frozen out of contracts in the South due to their location. The Keynesian growth-pole for jobs has not worked in the past, and still does not succeed today.

The creation of such a policy, and the necessity to comply with its simultaneously exacting yet nebulous requirements, has also created a side-economy of consultancies, alliances, and cooperatives of Social Value experts - 31 have been registered on Companies House offering services in this area. Whilst this is not the fault of specialist consultants, helping companies navigate the Model Award Criteria, the very necessity of such criteria adds additional costs on suppliers adds to further insufficiencies in fulfilment of the procurement contract. If such a system is so complicated as to require consultancies, web-hubs, and various other auxiliary facilities, then it is put out of reach for the majority of businesses who struggle enough with heightened costs which are reduced by scale.

Overall, the government’s new approach to procurement will add nothing but cost, delay, and frustration to suppliers, especially for those who do not have the capacity to accommodate the various expensive and sundry costs associated

²² Crown Commercial Service, “PPN 06 20 Taking Account of Social Value in the Award of Central ...,” GOV.UK, September 2022, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/921437/PPN-06_20-Taking-Account-of-Social-Value-in-the-Award-of-Central-Government-Contracts.pdf.

²³ Ibid.

²⁴ Government Commercial Function, “The Social Value Model - Gov.Uk,” Gov.UK, December 3, 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940826/Social-Value-Model-Edn-1.1-3-Dec-20.pdf.

with acquiring a procurement contract. Instead of demanding a varied, resilient, and efficient supply of procured goods and services, it will have a restricted, levelled-down approach which favours larger, more sluggish corporations. This cost will be felt by entrepreneurs, tax-payers, and the British public, all for a Social Value model which has thus far demonstrated no measurable benefits for cost.

A HISTORY OF BLUNDER:

Government services have a history of blunder, as the distinguished political scientists Anthony King and Ivor Crewe examine in their bestselling *The Blunders of our Governments*.²⁵ This encyclopaedia of procurement and project failure is dated until 2014, yet fiascos continue at ever greater speed and with ever growing budgets.

The governments' ambitions of social value, which seek to expand value beyond those quantified on a balance sheet, can create inverse problems. Failed IT systems, such as the National Insurance Recording System 2 (delivered in 2001), was criticised by David Davis, the then Chair of the Public Accounts Committee (PAC) as having "plunged many thousands of people...into uncertainty and fear."²⁶ Ongoing project fiascos swell balance sheets and deficits whilst diminishing trust in the government from the people it exists to serve

From immigration to health funding, the pursuit of procurement has been adapted to benefit electoral and political interest over tangible benefits to taxpayers. The government's 'Levelling Up' agenda has placed increased necessity to create jobs and prosperity in the North and Midlands; procurement regulations have been reformed in order to achieve this goal. Through an increased effort to engage stakeholders, the Crown Commercial Service has been keen to pick winners by prioritising local small-medium enterprises (SMEs) to fulfil procurement contracts over non-local SMEs. Rather than relying solely on competency, efficiency, and competitive prices, the government has sought to expand paper-work, time, and regulation to include various third-sector expectations and arbitrary regulations that will continue to push prices up or push businesses out of procurement processes.

The procurement of contracts and technological projects fell to in-house Civil Service teams, overseen by the Government Commercial Organisation, which

²⁵ Anthony King and Ivor Crewe, *The Blunders of Our Governments* (London, London: Oneworld, 2014).

²⁶ 1. David Brindle, "Pensions Computer Upgrade Hit by 1,900 Bugs as Deadline Looms," *The Guardian*, January 26, 1999, <https://www.theguardian.com/uk/1999/jan/26/davidbrindle>.

has directed massive cash-flows into public maintenance and growth. Formerly, the Government Procurement Service (reformed into the Crown Commercial Service) laid a minefield of regulations through which the private sector had to navigate before completing orders. Despite the innovative Dynamic Purchasing System being brought into the procurement ecosystem in 2006, it still requires further reforms to make it best applicable to a truly world-class procurement infrastructure, starting primarily with the scrapping of the Social Value Act.

Red-tape's build-up is seen by small businesses as garrotting them, with 43% of surveyed firms arguing that the accumulation of regulations strangles their growth.²⁷ Likewise, businesses seeking to expand into the procurement sector find it difficult to grow outright due to a plethora of regulations constraining them, as highlighted in the Adam Smith Institute's *Forgotten Medium* briefing paper.²⁸

The Public Accounts Committee's 2016 review into procurement found that "it is not clear that SMEs are better able to compete with larger providers or whether they are actually getting any more government business than before."²⁹ The government also was accused of obscuring targets through direct and indirect spending, as it narrowly succeeded in its target of 1/3 of procurement with SMEs. Procurement targeting remains a problem for the government, one that cannot be solved without serious reform of its parameters.

Since the PAC's review of procurement practice, the list of poor procurement has continued to grow. The Ajax Programme has cost the taxpayer £5.5bn, and was criticised heavily by the National Audit Office, Defence Committee, and PAC.³⁰ Likewise, the full rollout of the UK Border Control Gates was delayed until 2019 owing to internal IT issues, something which it is still troubled with. The programme has cost the British Government £1bn, not including the incalculable knock-on losses in time, efficiency, and additional salaries of Border Control officers who could have been reallocated by the gates.³¹ It is already clear that public procurement is inefficient, a fact not helped by a lack of competition from smaller businesses owing to the Social Value Model.

²⁷ Milica Srugar, "Captivating Small Business Statistics UK Edition [2023]," CyberCrew, March 30, 2023, <https://cybercrew.uk/blog/small-business-statistics-uk/>.

²⁸ 1. Maxwell Marlow, Duncan Simpson, and James Lawson, "Helping Mid-Sized Businesses to Scale Up," Adam Smith Institute, March 6, 2023, <https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/6405c72f7f38c44b6aecb628/1678100272139/Forgotten+Medium+Version+1+%281%29.pdf>.

²⁹ Public Accounts Committee, 'Government Spending with Small and Medium-Sized Enterprises' (London: House of Commons, 11 May 2016),

³⁰ Louise Brooke-Holland, "Ajax: The British Army's Troubled Armoured Vehicle Programme," Public Accounts Committee, March 31, 2023, <https://researchbriefings.files.parliament.uk/documents/CBP-9764/CBP-9764.pdf>.

³¹ Lindsay Clark, "Part of UK Border Control Upgrade 'Lacks Systems Integrator,'" The Register - Biting the hand that feeds IT, January 14, 2022, https://www.theregister.com/2022/01/14/uk_border_upgrade_confusion/.

Headline dominating procurement failures are easily researched. What is not reported, and remains difficult to research, is the lost potential of micro and small-medium sized enterprises to access procurement contracts owing to the inefficiencies of the current procurement system. If lessons are to be learnt, it should focus on both the larger procurers and why smaller entities struggle to access procurement opportunities.

DISSECTING THE SOCIAL VALUE MODEL:

At present, the Treasury Green Book utilises specific, measurable, achievable, relevant, and time-bound (SMART) objectives to measure Value for Money.³² SMART's regime is well applied throughout the private sector and has been in existence since 1981, where it has since spread globally in appraisals and Requests for Proposals.³³ As an effective system, it would be assumed that it has been applied to the Social Value model - however, this is not the case.

The Social Value Act mandates the awarding of at least 10% of 'points', ranked from 4 (excellent) to 0 (fail), towards 'socially valuable' targets to be achieved under the fulfilment of the contract. The latest model sets out 5 primary themes to tackle through procurement: Covid-19 Recovery, Tackling Economic Inequality, Fighting Climate Change, Equal Opportunity, and Well-being. Noble in prospect, these goals have been central to the Government's 'Levelling-Up' agenda; however, directing how the private sector should procure, act, and deliver services is destructive to our productivity and growth. Britain's unique chance to redefine the efficiency and capabilities of our private sector should not be squandered by bureaucratic dictats.

Theme 1: Covid-19 Recovery

The Government is eager to 'build back better' after the Covid-19 lockdowns. Whilst the Social Value Model framework contains now out-of-date measures to be taken, including taking measures to facilitate social distancing and Covid-isolation (which speaks in part to the lethargic blow-by-blow regulatory philosophy being adopted), it also seeks to re-establish business growth. According to the Reporting Metrics, there are three paths to achieve this:

1. Increasing the number of full-time employed people who were made

³² "The Green Book," Gov.uk, December 18, 2022, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063330/Green_Book_2022.pdf.

³³ George T Doran, "There's a S.M.A.R.T. Way to Write Management's Goals and Objectives," Temple University, November 1981, <https://community.mis.temple.edu/mis0855002fall2015/files/2015/10/S.M.A.R.T-Way-Management-Review.pdf>.

2. Increasing the people-hours spent volunteering and involving themselves in community integration/rebuilding, under the contract.
3. Increasing the percentage of companies in the supply chain who have committed to the 6 standards of the Mental Health at Work commitment, under the contract.

On a visit to China, Milton Friedman remarked to his guide why workers were digging a canal with shovels rather than modern machinery: the guide replied “You don’t understand. This is a jobs program”, to which Milton retorted “Oh, I thought you were trying to build a canal. If it’s jobs you want, you should give these workers spoons, not shovels!”. Point 1 follows a similar logic, prioritising employment for the sake of employment, rather than for the sake of efficiency and productivity. There are no guarantees that such work would be fulfilling, productive, or well-paid, or even that this artificial employment would aid the delivery of the contract. Indeed it only adds cost

Given that there are now more job openings than unemployed individuals, we have a red-hot labour market. Employment figures have returned to pre-pandemic levels; by March 2022, UK unemployment reached 3.9%, which is an optimal level for efficient wage bargaining whilst maintaining manageable wage inflation. Meanwhile, there are 1.3m job openings within the economy. The policy suggestion to artificially inflate job openings will create adverse effects for the labour market, pushing crucial SME profit margins tighter, preventing growth and decreasing productivity. Enterprises specialise in efficiency and productivity, yet these policy solutions will undo just that; if a strong economy is the highest goal of Boris Johnson’s government, he will prevent this stable, growth orientated with such Keynesian proposals.

Policy solutions should address barriers to entering the jobs market rather than attempting to create more jobs, especially in companies which have adapted their size to their deliverables (such as SMEs). SMEs make up 94% of all businesses in the UK, yet the average SME employs around 9 people, with scarce resources to employ more. Inflating the size of companies in order to win contracts adds immense costs in retraining, payroll taxes, new equipment, and facility size needlessly, exerting more costs on already struggling businesses, limiting growth and profit for Britain’s ingenious entrepreneurs.

Point 2 encourages the uptake of employee volunteering. It is generally recognised that SMEs wish to increase their social and community impact,

whether through local community initiatives or investing in local programs. Yet, the Government's mandate of these political objectives, by integrating it within the procurement framework, imposes unsustainable costs on businesses. Internalising social costs within businesses increases payroll costs at the expense of productivity and procurement delivery - there is little wonder as to why it is the sphere of large, profitable corporations rather than SMEs, who are the evangelists of employee volunteering. Although potentially delivering for local communities, the framework hollows out private enterprise by turning them into part-time charities, something which is not sustainable for the economic growth we need.

Parts 3 and 4 are sensible suggestions, as mental health is now the largest concern for employers and employees. Mental health is a serious crisis facing Britain's economy, with 1 in 4 people reporting a mental health problem in the UK in the second quarter of 2021.³⁴ Companies should make an active effort to assist their employees health, mental and physical, however with it being related to procurement contracts it places an excessive burden on companies which may not have the resources to fulfil this obligation. Given the majority of companies

Theme 2 - Tackling Economic Inequality

In support of the UK's cooperation with the United Nations Sustainable Development Goals (SDGs), tackling economic inequality has been built into the Model Award Criteria of procurement decisions. These are decided through over 50 separate criteria, ranging from creating diverse and collaborative supply chains, to volunteering time for literacy, to ensuring access for disabled employees (even when none are employed). As previously mentioned, these are not insidious or poor nominal objectives, however, they do not factor in the capacity and autonomy of tendering companies, and thus preclude their entry into the procurement supply chain regardless of their product.

The cost of compliance could number in the tens of thousands per company, however, such figures are difficult to be sure of given the vast range of companies affected. Solid figures, such as the cost of the 'Cyber Essentials' and 'Cyber Essentials Plus', find that they are expensive, costing hundreds to thousands of pounds, depending on the supplier. Such certifications are required, even when the procured service or good may not even include IT or use bespoke software.

³⁴ Carl Baker and Esme Kirk-Wade, "Mental Health Statistics: Prevalence, Services and Funding in England," House of Commons Library, March 13, 2023, <https://commonslibrary.parliament.uk/research-briefings/sn06988/>.

GCHQ, who have backed the Cyber Essentials scheme, have outlined that it is meant for “medium to large organisations”, effectively freezing out smaller suppliers.³⁵ With seven in ten small enterprises not registered under the scheme, greater attention should be turned to finding better ways, other than contract mandating, this scheme.³⁶

Effectively mandating apprenticeship uptake is also a contentious subject. Despite the Government rightly boosting apprenticeships as an alternative path into employment, data demonstrates that 59% of apprentices start with large enterprises – almost double the start rate of small companies, and five times more than in medium sized businesses (see Annex 2). By utilising economies of scale and offering larger facilities for apprenticeship intake, larger companies have a much higher chance of successfully tendering for procurement contracts.

Theme 3 – Fighting Climate Change

The Model Award Criteria for protecting the environment have the fewest requirements, all targeted at working towards net zero emissions directly and in supply chains. Applicants are expected “to influence staff, suppliers, customers, communities and/or any other appropriate stakeholders through the delivery of the contract to support environmental protection and improvement”, such as suggesting that employees volunteer in communities and training / education on environmental behaviours.

The relevance of these criteria and illustrative examples are of little relevance to delivering procurement contracts and delivering the best value for money for the taxpayer. Despite reducing the amount of water and energy in delivering the contract would lower costs, placing this as a blocking measure on procurement contracts increase operating and compliance costs against delivering the agreed product.

Around half of all SMEs recognise environmental sustainability and protection is a priority for their business, however, only 3% have measured their carbon footprint and have set targets for its reduction - this is likely due to constrained resources in tracking and investing in supply chains to mitigate their pollution.³⁷

³⁵ GCHQ, “10 Steps to Cyber Security,” GCHQ, accessed August 8, 2023, <https://www.ncsc.gov.uk/files/2021-10-steps-to-cyber-security-infographic.pdf>.

³⁶ Naomi Jeffreys, “Seven in 10 Firms Don’t Have Cyber Insurance,” The Law Society, July 21, 2023, <https://www.lawsociety.org.uk/contact-or-visit-us/press-office/press-releases/seven-in-10-firms-dont-have-cyber-insurance>.

³⁷ British Business Bank, “Smaller Businesses and the Transition to Net Zero,” British Business Bank, October 2021, https://www.british-business-bank.co.uk/wp-content/uploads/2021/10/J0026_Net_Zero_Report_AW.pdf.

The Model Award Criteria for equal opportunity includes increasing the representation of disabled people in the workforce, reducing the disabled employment gap, and tackling workforce inequality, as well as countering modern slavery.

Whilst it is true that more than 70% of small businesses do not hire a single disabled person, this is down to a combination of lower workforce participation by disabled people (there are 3,066,000 working age disabled people, of which 7.2% are unemployed), a lack of capacity to facilitate employment, and geographical distribution of the available disabled workforce.³⁸ This means that businesses applying for tender are unfairly disadvantaged by extraneous conditions based on their locality and size. Such requirements are inherently anti-meritocratic, and fail to achieve the best value for money.

Likewise, whilst it is all parties interests to develop and train their employees, abled and disabled alike, where this does not happen is often down to constrained resources. Smaller businesses who lack an HR department are placed at an immediate disadvantage when compared to larger competitors in tendering for contracts, therefore. This lack of size likewise relates to combating modern slavery in supply chains - illustrated examples provided by the MAC included devoting employee time to volunteering about the impacts of modern slavery. Such demands on an already pressured workforce, which is dedicated to delivering the specified contractual obligations are therefore contrary to achieving value for money and higher productivity / efficiency.

MACs assess procurement tenders by attempting to micromanage the operational behaviours of companies, such as by recommending gender discrimination in hiring, retention, pay, and review schemes, as well as ensuring at least one day a week is flexible for employees. Instead of leaving businesses to operate under their own most effective conditions, MACs require tenders to operate under Whitehall employment rules or lengthily explain why this would not be feasible for delivering the best outcomes for the contract.

Theme 5 – Wellbeing

³⁸ "Employment of Disabled People 2022," GOV.UK, January 26, 2023, <https://www.gov.uk/government/statistics/the-employment-of-disabled-people-2022/employment-of-disabled-people-2022#:~:text=There%20were%204.9m%20disabled,the%20same%20quarter%20in%202013>; Esme Kirk-Wade, "UK Disability Statistics: Prevalence and Life Experiences," House of Commons Library, July 29, 2022, <https://commonslibrary.parliament.uk/research-briefings/cbp-9602/>.

As part of any contract that is labour intensive or where “the health and wellbeing of the contract workforce is important to the performance of the contract”, the Model Award Criteria require a number of micromanaging policies in its treatment of employees; tender applicants must enforce the recommendations of the Voluntary Reporting Framework (making it no longer voluntary), including influencing customers to support their own health. Supply chains are further subjected to such rules, regardless of their constituent sizes and specialities, meaning that tenders must exert HR pressures on their supply chains beyond the expected transactional commercial relationships.

REFORMING PUBLIC PROCUREMENT TO WORK BETTER

The government has been trapped in a cycle of value creation rather than genuine growth. Levelling up has stalled, with Bloomberg finding no more than 30% of constituencies in any-one region as pulling ahead, with the effects of Covid-19 taken into effect. Particularly, in the East and West Midlands, no levelling up has been demonstrated.³⁹ There exists a fresh and exciting opportunity for developing a new levelling-up agenda with a procurement bill which fundamentally transforms the interaction between the state and the private sector, providing Britain with a renewed, outward looking and prosperous path for growth.

It is important to realise the scope and complexity of government procurement. Whilst many procurement choices require a single contract, the plethora of major projects that the government undertakes through its procurement framework require dozens, if not hundreds, of different contracts. Each will be subjected to the same hundreds of regulations and complicated consideration mechanisms as proposed by the government. Such regulations are only one-half of the process, however, as it is incumbent upon suppliers to fill out lengthy, technically ambiguous, and partially-relevant documents in order to even have a chance of remaining in the bidding process.

Take DTAC, the Digital and Technology Assessment Criteria for Health and Social Care. This document comprises 36 pages of hyperlinks, regulations, and blank spaces (expected to be filled with minute detail by suppliers) and requires weeks of box-ticking and time writing where products could be developed, delivered, and improved upon. This is just one of thousands of procurement forms. Whilst, rationally, such an exercise makes sense for the NHS, the value added is questionable and immensely costly for SMEs. Procurers should construct frameworks, primarily, with private sector/supplier stakeholders, allowing questions to be simultaneously rigorous but also time-efficient for the

³⁹ John Mayes, Andre Tartar, and Demetrios Pogkas, “Boris Johnson’s Flagship Plan to Fix Britain Is in Trouble,” Bloomberg.com, June 24, 2022, <https://www.bloomberg.com/graphics/uk-levelling-up/boris-johnson-level-up-plan-in-trouble.html>.

For functioning, transparent, and fair procurement processes, the Government must lessen the burden on excessive regulations to comply with various political objectives. Reorientation towards delivery, anti-corruption, and cost effectiveness should take precedence. Should procurement seek to uphold the prima facie values of Social Value, they should for example undertake an evaluation of Quality Adjusted Life Years for areas of healthcare procurement, or offer assistance to tenders with regards to community or anti-human trafficking services post facto.

2021 Procurement Spending as a percentage of GDP

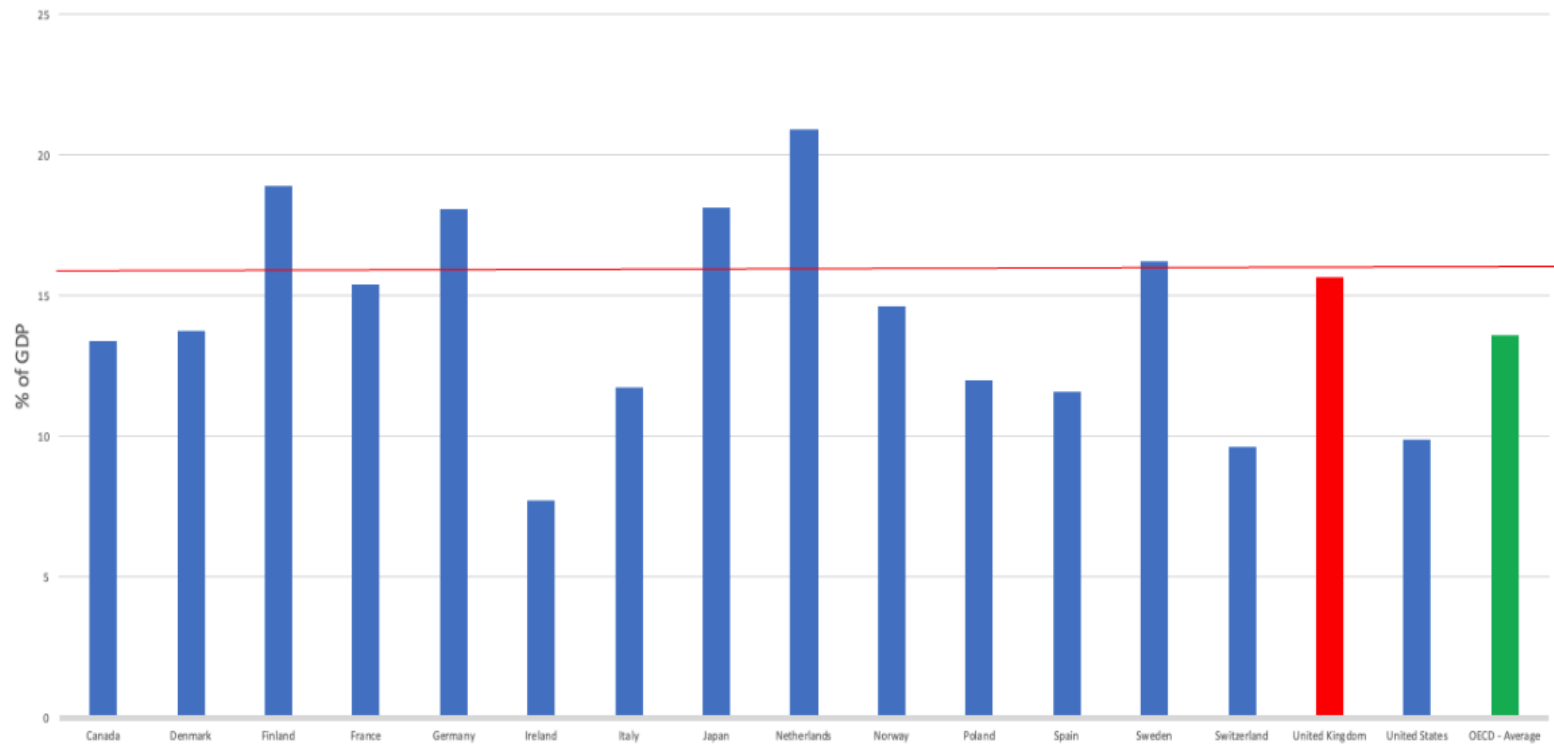


Image 1: OECD National Accounts Statistics (database). Data for Australia are based on a combination of Government Finance Statistics and National Accounts data provided by the Australian Bureau of Statistics.

ANNEX 2:

Apprenticeship starts by enterprise size, 2012/13 - 2020/21

	Number of apprenticeship starts				
	Small (0-49 employees)	Medium (50-249 employees)	Large (250+ employees)	Not available	Total
2012/13	165,020	63,650	222,010	30	450,710
2013/14	154,980	57,010	176,560	40	388,590
2014/15	172,550	67,170	206,170	20	445,910
2015/16	173,200	73,630	210,190	no data	457,020
2016/17	166,170	74,800	208,850	no data	449,830
2017/18	107,430	43,470	195,760	190	346,840
2018/19	100,080	41,120	224,970	no data	366,170
2019/20	81,450	34,250	185,620	100	301,410
2020/21	91,230	32,550	179,880	70	303,730